

**10/20/77 [1]**

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# WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	<del>FROM Tarnoff to Hutcheson (2 pp.) re: Sea Level Canal in Panama 2 copies/ enclosed in Hutcheson to McIntyre et al. 10/20/77</del> <i>opened per RAC, 2/21/13</i>	10/15/77	A
<del>memo</del>	<del>From Schultze to The President (8 pp.) re: Medifications on Tax Reform/ enclosed in Hutcheson to Eizenstat 10/20/77</del> <i>Open 10/22/96</i>	<del>10/20/77</del>	<del>A</del>
note w/ att.	From Brzezinski to The President (5 pp.) re: PR C access to US Technology/ enclosed in Hutcheson to Press 10/20/77	10/19/77	A

## FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.- Pres. Hand-writing File 10/20/77 [1] BOX 55

## RESTRICTION CODES

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THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

Stu Eizenstat  
Charles Schultze

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: ANSWERS TO YOUR QUESTIONS  
AT OUR LAST CONFERENCE (TAX)  
THOUGHTS ON POSSIBLE MODIFICA-  
TIONS IN TAX REFORM

CONFIDENTIAL



THE PRESIDENT HAS SEEN. ~~CONFIDENTIAL~~  
THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

October 20, 1977

Info to  
Charlie  
Stu  
J

MEMORANDUM FOR THE PRESIDENT

Subject: Answers to your questions at our last conference

Nature of Business Tax Cut

You will recall that at our last tax conference some of us thought perhaps it would be better to have a permanent reduction in the form of a 4-point reduction in the corporate rate as contrasted to the 2-point corporate reduction and temporary increase in the investment credit. At your suggestion I talked to many different segments of business to get their ideas on the nature of the tax reduction for business. Those I talked to included Reg Jones, Irving Shapiro, John DeButts, and representatives of small business.

With only the exception of the small business representatives, all of those I talked to--

- ° Very strongly favored permanent tax cuts so they can plan for the future in their businesses.
- ° They wanted the present 10-percent investment credit which expires in 1980 to be made permanent.
- ° They favored rate reductions over all other forms of relief and also without exception favored relief from double taxation over further increases in the investment credit.
- ° They expressly indicated that they did not favor temporary increases in the investment credit because on this basis they can't plan the cost of their investments or rate of return far enough ahead.
- ° Frequent in the group was the expression of dislike for "fine tuning."
- ° The representative of small business had similar although not identical views. He strongly supported tax rate reductions.

I believe it is important to the success of our tax reform program that we come out with business tax reductions which business will enthusiastically support. Only in that way can we dull their opposition to tax reform provisions in the bill as well.

#### Rate Schedule

In our last session on the tax reform measures, you expressed concern because the reduction in one tax bracket between \$50,000 and \$70,000 was in excess of \$1,000 and was much larger than other reductions in the lower income brackets. Because of that you asked us to examine tax rate brackets where the top 50 percent rate applied at \$60,000, \$65,000, and \$70,000. You also asked to see the tax reduction in these cases in smaller brackets.

A table of the type you requested is attached. I think the \$70,000 top level for the 50 percent rate is still desirable. The large reduction occurred in the bracket we previously showed you primarily for two reasons. First, we probably inappropriately selected a rather wide income bracket. The attached table, which shows smaller income brackets, was the reduction on the average.

In addition, the kinds of income in each of these brackets is based upon an estimated distribution of different kinds of incomes, such as capital gains, ordinary income, etc. Samples on which these brackets were based are by necessity somewhat inadequate in the number of cases covered. In view of this, some brackets may contain larger amounts of particular types of income than others. The effect of this shows a somewhat erratic pattern of tax reductions. I believe the new table which we have presented shows that one bracket or another may, because of this sample, show larger reductions than would occur if the income in each category were more evenly distributed. We can appropriately change this by rechecking the sample and the types of income it contains.

#### Energy and Percentage Depletion or Minimum Tax

In the tax reform proposals we presented to you last time, percentage depletion for hard minerals would be phased out entirely over a 10-year period. The difficulty with this is that it applies to coal which we need to emphasize

in the period ahead. For example, it would probably increase the cost of coal by as much as 7 percent. I should also point out that the Department of Energy does not want us to reduce percentage depletion in the case of coal.

Because of this concern, I now would suggest that we phase percentage depletion rates down to a 10 percent level over a 5-year period (rather than phase it out entirely). This would mean no change in the percentage depletion rate for coal or any other items at or below the 10 percent rate. It would also mean smaller percentage depletion rate reductions for those items subject to depletion at 22 percent, 16 percent, 15 percent, and 14 percent (the bulk of the hard minerals are in the range of 14 to 16 percent). This would also remove questions some have raised as to why we do not phase out percentage depletion entirely for oil and gas. (This would no longer seem to be called for at this time, since we are not completely phasing out percentage depletion for any other items.)

I also want to emphasize the problem we will have if we broaden the application of the minimum tax in the intangible drilling expenses for oil and gas. Because of the emphasis recently in increasing incentives for energy production, I think large segments of the country would be totally unwilling to tighten up on the expensing of drilling for oil and gas for years to come. This point of view was clearly expressed by Jim Wright in a letter to you. He also thought that to broaden the minimum tax in this case ran contrary to the position we agreed to on the energy bill.

#### Budgetary Effect of the Tax Reform

The overall revenue effect of the proposals previously presented to you on a year-by-year basis without taking into account induced revenue effect from improved economy were:

Fiscal year 1979, \$16.6 billion,  
Fiscal year 1980, \$29.6 billion,  
Fiscal year 1981, \$38.0 billion, and  
Fiscal year 1982, \$41.2 billion.

The estimated improvement in the economy, induced by the tax reductions provided by these proposals, would raise revenues generally by:

Fiscal year 1979, \$1 billion,  
Fiscal year 1980, \$9 billion,  
Fiscal year 1981, \$17 billion, and  
Fiscal year 1982, \$20 billion.

This means that the net revenue change induced by the proposals is as follows:

Fiscal year 1979, \$15.7 billion,  
Fiscal year 1980, \$20.9 billion,  
Fiscal year 1981, \$20.8 billion, and  
Fiscal year 1982, \$21.2 billion.

In latter material in the Overview, it is pointed out that the estimated margin for the fiscal year 1981 was \$43 billion. From this was subtracted \$38 billion for the tax reform package. This left a \$5 billion margin for expenditure reduction. You inquired as to why the \$38 billion was used for tax reform in this case rather than the \$20.8 billion which is the net revenue change estimated above for the fiscal year 1981.

You will note that the \$38 billion tax reform assumed in this latter calculation is the same as the revenue effect before the stimulative effect of the reductions in tax is taken into account. The \$38 billion is used in place of the net revenue effect of \$20.8 billion because the income level assumed by the Council in making the set of estimates was higher because of the revenue cut. This means that the figures in this latter tabulation were gross in all respects and did not take into account the extent to which each figure improved the economy.



W. Michael Blumenthal

Attachment



Burden Table Under Alternative Rate Schedules 1/  
Joint Return with Two Dependents

Expanded income class  (\$000)	Average tax 1977 law <u>2/</u>	Taxable income at which 50 percent marginal rate begins:								
		\$70,000			\$65,000			\$60,000		
		Average tax	Average tax change	Percentage change	Average tax	Average tax change	Percentage change	Average tax	Average tax change	Percentage change
Less than 10	9	-76	-85	-947%	-76	-85	-947%	-77	-86	-952%
10 - 15	867	492	-375	-43	492	-375	-43	483	-384	-44
15 - 20	1,739	1,357	-382	-22	1,357	-382	-22	1,347	-392	-23
20 - 30	3,117	2,682	-435	-14	2,682	-435	-14	2,672	-445	-14
30 - 40	5,571	4,932	-639	-11	4,933	-638	-11	4,923	-648	-12
40 - 50	8,379	7,477	-902	-11	7,486	-893	-11	7,505	-874	-10
50 - 60	12,295	11,111	-1,184	-10	11,206	-1,089	-9	11,341	-954	-8
60 - 70	15,659	13,983	-1,676	-11	14,187	-1,471	-9	14,455	-1,204	-8
70 - 80	19,400	18,159	-1,241	-6	18,523	-877	-5	18,914	-486	-3
80 - 90	24,430	22,409	-2,021	-8	22,866	-1,564	-6	23,309	-1,121	-5
90 - 100	26,977	26,373	-604	-2	26,820	-157	-1	27,251	+274	+1
100 - 200	40,885	40,854	-31	*	41,339	+454	+1	41,783	+898	+2
200 and over	127,666	152,087	+24,421	+19	152,519	+24,853	+19	152,969	+25,303	+20

Office of the Secretary of the Treasury, Office of Tax Analysis

October 13, 1977

1/ Excludes imputed corporate tax and corporate tax changes.

2/ 1977 law includes \$3,000 capital loss offset against ordinary income scheduled under present law to be effective beginning 1978.

\*Less than 0.05 percent.





THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

October 20, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Thoughts on possible modifications in tax reform

Concern About the Size and Number of Tax Reform Proposals

There are several reasons now which make it desirable to slim down the size of our tax reform package:

- ° The need to send up the tax reform package before the conference on energy is completed will make it difficult this year to send the program up in time to get the Ways and Means Committee to start its hearings before next January.
- ° Next year being an election year means that the program must be completed by early Fall.
- ° There has only been one major tax reform bill over the last 20 years which has been completed in one year. That was the Tax Reform Act of 1969, which was not completed until December 30. We do not have that much time in 1978.
- ° The number of programs it has been necessary for us to present to the tax committees of the House and Senate gives them a sense of overwork and restiveness. This includes the tax aspects of energy, the social security program, the welfare reform package, as well as the tax reform program.

Because this restiveness on the part of the tax committees had become apparent from remarks of members such as Chairman Al Ullman, I met with the liberals on the Ways and Means Committee to get their views on tax reform. This was the group of six or seven of the most liberal members on the Committee, including such members as Ab Mikva, Joe Fisher, and Charles Vanik.

- ° There was a broad consensus of this group that we must decrease the number of tax reform items considered this next year.
- ° They especially expressed the desire to decrease the areas of controversy and especially expressed their concern with the tax treatment of capital gains.
- ° They also expressed a desire to emphasize tax simplification in this package over tax reform.
- ° Their view was that we should divide the tax reform proposals into two packages and that we should make it clear to the public that because of the timing we are decreasing the number of items being sent up this year but that in the next two years we would send up a second package. In that manner we would complete the consideration of major tax reform, to which we are committed.

Another problem which has come up in connection with a full and comprehensive tax reform program is one on which I have had discussions with Charlie Schultze. He believes there is a very strong likelihood (and I believe he is correct) that a rate reduction will be needed in the latter part of 1978. He is afraid that if we have a full and comprehensive tax reform bill that the action on it will be too slow to give us an opportunity to also provide for a tax reduction effective in the latter half of the year.

In view of the factors I have outlined above, I believe it is desirable to slim down or cut back the number of tax reform proposals we send to the Congress for action in 1978. I think at the same time we do this we can indicate that this is not the end of your tax reform proposals. We can make it clear that this is part one and that you will send up a second part in the coming session of Congress. We could indicate the general nature of the second tax reform proposal at least in some areas but still keep it general enough so that we would have flexibility in the period ahead in working out many of these proposals.

#### Nature of Division of the Tax Reform and Reduction Proposals into Two Packages

The tax reduction as well as the tax reform would also need to be divided into two parts in order to make it possible to sweeten the tax reforms which are to come

subsequently. But we need not indicate when the first package comes out the nature of the reform or reductions we will present subsequently in the second package. 7.

One way of dealing with the tax reform would be to divide the reform into parts with a given matter being tightened somewhat in package one and then further tightened in package two. In package one, however, the primary emphasis would be improving the economy. This would require reduction in the reforms in package one.

The accompanying memorandum sketches out the general nature which the first tax package might take.



W. Michael Blumenthal

THE PRESIDENT'S SCHEDULE

Thursday - October 20, 1977

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8:15 Dr. Zbigniew Brzezinski - The Oval Office.

8:45 Mr. Frank Moore - The Oval Office.

9:00 Congressman Edward I. Koch. (Mr. Frank Moore).  
(15 min.) The Oval Office.

9:15 Senator Edward Kennedy. (Mr. Frank Moore).  
(30 min.) The Oval Office.

9:45 Senators James Abourezk, Dale Bumpers, and  
(30 min.) Howard M. Metzenbaum. (Mr. Frank Moore).  
The Oval Office.

10:30 Mr. Jody Powell - The Oval Office.

11:00 Mr. Charles Schultze - The Oval Office.  
(20 min.)

12:00 Lunch with Secretary Michael Blumenthal.  
The Oval Office.

1:30 Ambassador John West. (Dr. Zbigniew Brzezinski).  
(15 min.) The Oval Office.

2:00 Mr. Herbert Hansell, Legal Advisor, Department  
(20 min.) of State. (Mr. Frank Moore and Dr. Zbigniew  
Brzezinski) - The Cabinet Room.

2:30 Meeting with Consumer Group on Energy.  
(30 min.) (Mr. Stuart Eizenstat) - The Roosevelt Room.

2:00 PM

THE PRESIDENT HAS SEEN.  
THE WHITE HOUSE

WASHINGTON

October 19, 1977

C  
✓

MEETING WITH HERBERT HANSELL  
LEGAL ADVISER/DEPARTMENT OF STATE  
Thursday, October 20, 1977  
2:00 p.m. (20 minutes)  
Cabinet Room

From: Frank Moore *fm*

I. PURPOSE

For a legal briefing on Senate procedures on advising and consenting to treaties.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

- A. Background: Pursuant to the memorandum dated September 27 to you from Bob Thomson, this is a legal briefing on the implications of treaty reservations, understandings and amendments under international and domestic law.
- B. Participants: The President, Herbert Hansell, Warren Christopher, Doug Bennet, Hamilton Jordan, Frank Moore, Bob Thomson.
- C. Press Plan: White House Photo only.

III. TALKING POINTS

From this meeting, you should expect to receive a clear understanding of the implications under international law of Senate amendments, reservations, understandings, etc., to the Panama Canal Treaties. The State Department legal staff will also explain Senate procedures used in imposing those types of alterations to treaties submitted by the President. They will be prepared to answer questions.

Electrostatic Copy Made  
for Preservation Purposes

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Hamilton Jordan

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

RE: U.S. POSTAL SERVICE BOARD  
OF GOVERNORS

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
✓		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN



THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HAMILTON JORDAN

SUBJECT: U. S. Postal Service Board of Governors

The 1970 Postal Reorganization Act created a quasi-independent government-owned corporation which was to have exclusive control over management decisions. The Board of Governors consists of nine presidentially appointed members plus the Postmaster General and Deputy Postmaster General. (The presidential appointments select the Postmaster General and the Deputy.) The eleven members of the Board exercise the power of the Postal Service and are authorized to use revenue from mail and service, borrowings, and Federal appropriations to finance postal operations and capital expenses.

Recently, the Board of Governors has been strongly criticized for failing to give direction to the Postal Service. The Report of the Commission on Postal Service stated:

"In the past, the Governors have failed to exercise initiative on vital matters affecting the Postal Service, including collective bargaining agreements, costly capital investment projects and the potential for Postal Service involvement in the field of electronic communications. Their oversight has been minimal and insufficient, and they have not been inclined to advise postal management on major policy issues."

There are currently two vacancies on the Board of Governors. It is important that these two appointments be people who have an exceptional business sense but who are also sensitive to the added responsibilities and restraints surrounding the Postal Service that do not concern a privately owned corporation.

I recommend that you appoint Mr. C. Dan Rambo and Mr. J. Mack Robinson to the Board of Governors. Rambo is a well-respected lawyer and geologist from Oklahoma who has had substantial government experience as well. As Counsel to the Governor of Oklahoma, Rambo was intimately involved with the state budget process. Rambo is also very strongly endorsed by Congressman Tom Steed, who, as chairman of the Treasury, Postal Service, and General Government subcommittee of the House Appropriations Committee will continue to be a key figure in postal service policy decisions.

Mack Robinson is an Atlanta businessman who has not only a long record of success in the business community but in the public service sector as well. Bert Lance considers the appointment of Robinson to be an exceptionally strong choice. *This good use of Mack Robinson is very important to Bert.*

RECOMMENDATION:

Appoint C. <sup>\*</sup>Dan Rambo to the Postal Service Board of Governors

\_\_\_\_\_ Approve

\_\_\_\_\_ ☒ Disapprove

Appoint J. <sup>\*</sup>Mack Robinson to the Postal Service Board of Governors

\_\_\_\_\_ ☒ Approve

\_\_\_\_\_ Disapprove

*J*

*\* Before you make final decisions about the Post Office, we will go through a period of time when our only leverage on Bailor is this Board. For that reason, having strong business people who are loyal to you is very important.*

*H.Q.*

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for Preservation Purposes

*a) Why Oklahoma? House  
Support is poorest in  
Congress. Barlett 21%  
Bellmont 30% =  
b) Why not someone like Ed  
Price?*

C. DAN RAMBO

Comments on C. Dan Rambo

Lee Martin, Chairman, Norman Bank of Commerce, Norman, Oklahoma

"Excellent for anything. Very conscientious, hardworking and extremely intelligent. He has an excellent law practice and owns considerable property; takes very good care of his business."

Phil Syncox, Executive Vice President, Norman Bank of Commerce

"I have known him for twenty-five years. He is an honorable man who does what he says he will do: reliable, well thought of. He has had experience with money matters in state government. He is a fiscal conservative, which may be what the Post Office needs. Very good person."

John Ford, President of Agar-Ford Insurance Agency

"First class person; hard working, dedicated. One of the hardest workers I know - he used to work eighteen hours a day when he was Counsel to the Governor. He is level-headed, a deep thinker, has good judgement. He has an excellent reputation as a fair and honest person."

Gerald Barton, President of the Landmark Land Company, Oklahoma City

"I have known him since 1950. He is totally trustworthy: I would trust him with anything I have. He is hard working and loyal. A very good lawyer. Was involved in the state budget process. He should be Chairman of the Board of Governors."

C. DAN RAMBO

Norman, Oklahoma

PROFESSIONAL EXPERIENCE

1965 - Present	Private Law Practice
1971 - 1974	Legal Counsel to Governor of Oklahoma
1955 - 1962	Petroleum Geologist, Cities Service Oil Company

COMMUNITY SERVICE

1976	State Campaign Coordinator, Carter-Mondale, Kentucky
1969 - 1970	State Campaign Coordinator, David Hall for Governor
1967 - 1971	Chairman, Cleveland County Community Action Foundation
1965 - 1969	Cleveland County Democratic Party Chairman
1963 - 1966	County Chairman, Fred Harris for Senate

EDUCATION

University of Oklahoma	(1951	B.A.)
University of Oklahoma	(1955	M.S.)
University of Oklahoma	(1965	J.D.)

PERSONAL

White Male  
Democrat - 48

J. MACK ROBINSON

Comments on J. Mack Robinson

Thomas B. Williams, Chairman of the Board, the First National Bank of Atlanta

"I have known Mack Robinson for many years. He is one of the most astute businessmen I know and one of the most ethical. He has always been in service industries - insurance, finance, banking and has been very successful. He has a long record of public service. I give him the highest possible recommendation for the Board of Governors of the U. S. Postal Service."

Bert Lance, Director, Office of Management and Budget

"Great ability. Don't find people like him. Definitely want him."

Sam Hudgins, Vice President, Arthur Anderson, Atlanta

"He is my client. Robinson is one of the most astute businessmen I know. He sits on the Board of Directors of the First National Bank of Atlanta and he asks some of the toughest questions on that Board. He is a cool-headed, thoughtful gentleman. Stays well informed about everything in business. He is an outstanding individual."

Allen Post, Partner, Law Firm of Hansell, Post, Brandon and Dorsey

"Very fine businessman, highly thought of in Atlanta. A man of his word."



J. MACK ROBINSON

Atlanta, Georgia

PROFESSIONAL EXPERIENCE

1948 - 1972	Dixie Finance Corp. - Chairman of the Board
1958 - Present	Delta Life Insurance Company, Chairman of the Board
1965 - Present	Delta Fire & Casualty Insurance Company Chairman of the Board
1972 - Present	Gulf Capital Corp., Chairman of the Board
1974 - Present	Atlantic American Corp., Chairman of the Board  Director, First National Holding Corp. Atlanta, Georgia (bank holding company)  Chairman, Tindol Services, Inc. (pest control and building maintenance), Atlanta, Georgia  Chairman, Villa Carpet Mills (carpet manufactur ing) Calhoun, Georgia  Chairman, Tri-State Systems, Inc. (outdoor advertising) Tifton, Georgia  Chairman and/or Director of a number of small Georgia banks

COMMUNITY SERVICE

Board of Sponsors - High Museum of Art,  
Atlanta, Georgia

Board of Directors - Southern Council on  
International and Public Affairs, Atlanta, Ga.

Board of Directors - Westminster Schools  
Atlanta, Ga.

PERSONAL

White Male  
Democrat - 54



## DEPARTMENT OF STATE

Washington, D.C. 20520

October 15, 1977

~~CONFIDENTIAL~~MEMORANDUM FOR MR. RICK HUTCHESON  
THE WHITE HOUSE

Subject: Sea-Level Canal Legislation

Because both Panama and individual members of Congress would misinterpret such an effort by the Administration, the Department strongly recommends against the introduction of any legislation authorizing a sea level Panama Canal feasibility study prior to the completion of the treaty ratification process.

Administration support of such legislation would confuse the ratification process:

-- The possibility of such a study could serve as a pretext by some for delaying ratification on the ground that if a sea-level canal is soon to be constructed we do not need the new treaties.

-- Treaty opponents would charge the Administration with attempting to circumvent the ratification process by implementing a section of the treaty by special legislation.

On the other hand, a unilateral U.S. study would seem to be disregarding the treaty provision for a joint study - not an auspicious augury for cooperation under the new arrangements. The Torrijos Government would conclude that the United States was attempting to complete the study without Panamanian participation and then planning to present the GOP with a fait accompli. The GOP would view this as high handed and would accuse us of undermining the treaty. Treaty opponents in Panama would seize on our action as evidence of U.S. bad faith.

~~CONFIDENTIAL~~  
GDS

DECLASSIFIED  
Per: Rac Project  
ESDN: NLC-126-9-27-1-2  
BY: KS NARA DATE 2/19/13

~~CONFIDENTIAL~~

-2-

For these reasons, the Department strongly recommends that the Administration not support legislation concerning a sea level canal at this time.

*David Anderson*

*for*  
Peter Tarnoff  
Executive Secretary

~~CONFIDENTIAL~~

**NATIONAL SECURITY COUNCIL**

**Oct 18, 1977**

**TO: RICK HUTCHESON**

**FROM: CHRISTINE DODSON**

WASHFAX RECEIPT  
DEPARTMENT OF STATE

DEPARTMENT OF STATE

OCT 18 PM 3 49

df

B

S/S #

77 OCT 1

PM 4:01

GD

WHITE HOUSE  
SITUATION ROOM

MESSAGE NO. \_\_\_\_\_ CLASSIFICATION ~~Confidential~~ No. Pages 2

FROM: Leo Reddy S/S-S x20318 7241  
(Officer name) (Office symbol) (Extension) (Room number)

MESSAGE DESCRIPTION T-B #7726079 of 10/15 on Sea-Level Canal Legislation

TO: (Agency) NSC DELIVER TO: Christine Dobson Extension \_\_\_\_\_ Room No. \_\_\_\_\_

FOR: CLEARANCE ☐ INFORMATION ☒ PER REQUEST ☐ COMMENT ☐

REMARKS: \_\_\_\_\_

S/S Officer: [Signature]

77 OCT 18 PM 3 49

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Per: Rac Project

ESDN: NLC-126-9-27-1-2

BY 125 NARA DATE 2/19/13

RF

## DEPARTMENT OF STATE

Washington, D.C. 20520

October 15, 1977

~~to: CONFIDENTIAL~~MEMORANDUM FOR MR. RICK HUTCHESON  
THE WHITE HOUSE

Subject: Sea-Level Canal Legislation

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Per, Rac Project

ESDN; NLC-126-9-27-1-2

BY/KS NARA DATE 2/14/13

~~CONFIDENTIAL~~

Spec Asst to Secy

ARA-Rob. Stebbins  
S/As-Asb. P. J. ...  
B-R. ...  
L-M. ...  
ARA/PAN:J. ...

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ARA/PAN:J. ...  
X. 24980 10/14/77

Executive Secretary  
Peter Harhoff

*David G. ...*

For these reasons, the Department strongly  
recommends that the Administration not support  
legislation concerning a sea-level canal at this  
time.

~~CONFIDENTIAL~~



THE PRESIDENT HAS SEEN.

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

C

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz *BL*

SUBJECT: Swearing in Today at 1:00 p.m. of Mrs. Eloise Woods of Atlanta as Chairman of the National Credit Union Board -- Roosevelt Room

If you could drop in on this ceremony between 1:00 and 1:30 p.m., I would appreciate it.

Eloise is the General Manager of Georgia Telco Credit Union (the Southern Bell Credit Union) and has worked for this company and in the various state and national organizations of the credit union movement for thirty years.

As you are aware, the credit union movement is a tremendous growth industry, there now being approximately 35 million members of credit unions throughout the nation, with some \$50 billion in savings assets. There are approximately 20,000 individual credit unions, and they undoubtedly represent the most extensive true cooperative type of organization in the nation.

Among the 25 Georgians who will be present are Jack Dunn and Jim Barbre.

Electrostatic Copy Made  
for Preservation Purposes

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Walt Wurfel

The attached was returned in the President's outbox and is forwarded to you for your information. The signed original has been sent to Stripping for mailing.

Rick Hutcheson

LETTER TO ROBERT PITTMAN

cc: Stripping

*ARTICLE SENT TO STRIPPING*

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

*see if Walt wants to decline*

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
/		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary <u>next day</u>

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

October 19, 1977

TO: The President

FROM: Walter Wurfel

The St. Petersburg Times, which was one of your early supporters, has editorialized asking its readers for patience and understanding as you work toward a Middle East accord. A letter of appreciation from you to Editorial Director Robert Pittman is attached for your consideration. Pittman is the incoming president of the National Council of Editorial Writers.

cc: Jody Powell  
Jerry Schechter  
Patricia Barrio

107 20 1977

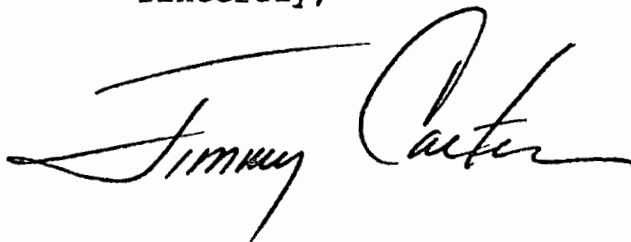
THE WHITE HOUSE  
WASHINGTON

October 20, 1977

To Robert Pittman

I read your October 6 editorial with appreciation. No party in the Middle East will be asked to compromise its essential principles, but as we search for the areas of agreement that can lead to a renewed Geneva Conference public support and understanding are essential. Your words are very helpful toward that end.

Sincerely,

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned below the word "Sincerely,".

Mr. Robert Pittman  
Editor of Editorials  
St. Petersburg Times  
PO Box 1121  
St. Petersburg, Florida

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Bob Lipshutz

The attached was returned in the President's outbox and is forwarded to you for your information. The signed original was given to Bob Linder for delivery to Secretary Blumenthal.

Rick Hutcheson

RE: SECRET SERVICE PROTECTION  
FOR SEC. BLUMENTHAL ON HIS  
IMPENDING TRIP TO THE MIDDLE  
EAST



THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION  
FYI

*send to Blum.*  
*GC*

	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	LANCE
	SCHULTZE

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	MOE
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	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

IMMEDIATE ACTION REQUESTED

~~THE~~ PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz *BL*

SUBJECT: Secret Service Protection for the Secretary of the  
Treasury on his Impending Trip to the Middle East

I recommend that you sign the attached authorization for this protection for Secretary Blumenthal on his trip. He is leaving on October 21, and returning on November 3.

As you are aware, his trip involves official visits to Egypt, Israel, Kuwait, Iran, Saudi Arabia, Italy and West Germany.

I recommend your approval of this protection.

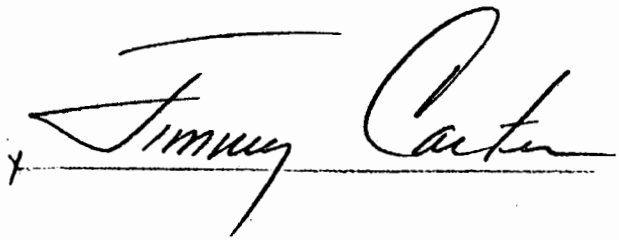
THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

During the period from October 21 to November 3, 1977, you, as an official representative of the United States, will be performing a special mission abroad. Pursuant to Section 3056 of Title 18, United States Code, I hereby direct that the Secret Service provide protection for you during that period.

A handwritten signature in dark ink, reading "Jimmy Carter", is written over a horizontal line. The signature is fluid and cursive, with the first name "Jimmy" and the last name "Carter" clearly legible.

9:45 Am

e

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEETING WITH SENATORS ABOUREZK, METZENBAUM & BUMPERS

Thursday, October 20, 1977

9:45 a.m. (30 minutes)

Oval Office

From: Frank Moore *F.m.*

I. PURPOSE

To discuss the energy bill.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This meeting is at your request.

B. Participants: The President  
Senator James Abourezk (D-S.D.)  
Senator Howard Metzenbaum (D-Ohio)  
Senator Dale Bumpers (D-Arkansas)  
Frank Moore

C. Press Plan: White House Photo.

III. TALKING POINTS

At your discretion..

Electrostatic Copy Made  
for Preservation Purposes

9:15 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE  
WASHINGTON

C

October 19, 1977

MEETING WITH SENATOR EDWARD KENNEDY

Thursday, October 20, 1977  
9:15 a.m. (30 minutes)  
Oval Office

From: Frank Moore *f.m.*

I. PURPOSE

To discuss the energy bill.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This meeting is at your request.

B. Participants: The President  
Senator Edward Kennedy (D-Mass.)  
Frank Moore

C. Press Plan: White House Photo.

III. TALKING POINTS

You should reassure Senator Kennedy that we have not cut a deal with Russell Long.

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for Preservation Purposes

FALLONS ATTACHMENT

THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: JIM FALLOWS

*JF*

SUBJECT: Senator Kennedy

I see that you are scheduled to meet with Senator Kennedy tomorrow morning. I wanted to be sure you knew about some advice he had given me last Sunday, when I was at his house, in hopes I would pass it to you.

Kennedy said that instead of spending your time talking with individual Congressmen about the energy bill, you should take a try at "jawboning." That is, he thinks you should assemble representatives from the major utilities, the oil companies, natural gas producers, and the like, and say to them, "Boys, will it be the carrot or the stick?" You could tell them that, if they'll be reasonable on the parts of the bill most important to you, you'll be reasonable on other parts for them. If they go along, fine; if not, you come out of the room and announce to the press that you've made reasonable offers, in the national interest, to our industrial leaders, but they are not even willing to go that far.

This idea seems defective to me: it is much more in John Kennedy's or Lyndon Johnson's style than your own, and at this late stage in the game we can't offer the kind of compromises we could when the legislation was first being created. But I wanted you to know about it in case Kennedy mentions it again.

In case you are interested, pages 437-440 and 449-451 of Theodore Sorensen's Kennedy describe his use of the tactic during the steel price rise of 1962, including Kennedy's line: "Some time ago, I asked each American to consider what he would do for his country, and I asked the steel companies. In the last twenty four hours we have had their answer."

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Frank Moore

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

cc: Hamilton Jordan

RE: "ENERGY CRISIS IS FOR REAL"



THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
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		LIPSHUTZ
/		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

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	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

Frank  
J

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for Preservation Purposes

CWA NEWS

## ENERGY CRISIS IS FOR REAL

Recent actions, and mostly inaction, by Congress in the field of energy have forced President Carter to take the case for his energy program to the people. This is good in many respects, for the issue is an extremely important and complex one and deserves general airing and broad debate.

And I believe it is likely that the public may show a greater wisdom in recognizing the true nature of the energy crisis than their elected representatives have to date.

For the energy crisis is real, it is still with us and it will be for a long time. President Carter knows this, and he knows that a comprehensive, on-going energy program is absolutely essential.

The President has correctly emphasized the need for energy conservation as an important aspect of national policy, a concept which Congress so far has not taken very seriously. Efforts such as those called for by the private sector Alliance to Save Energy, of which I am a member, will have to be undertaken by industry and by citizens or else we are going to be in real trouble in the future.

The reason is that our reserves of fossil fuels are indeed finite, and in the case of petroleum and natural gas, we are dangerously near to exhausting the supplies which can be readily developed. The U.S. is still much too dependent upon foreign petroleum sources, and the outlook for the future in this respect is not good.

Thus, the emphasis on more production at the expense of conservation, taken by the petroleum industry and by the Congress, is short-sighted. The President's description of the attempt to deregulate oil and gas prices as a monumental "rip-off" is an accurate one, I believe.

In fact, the price of "new" gas rose by nearly 450% between 1972 and 1976. During this period, gas production actually decreased by 12%, giving the lie to industry's argument that ever higher prices are needed as incentive for new explorations.

How much incentive is needed, a 2,000% increase? That's exactly what the producers are seeking with deregulation, a price equivalent to the monopoly price set by OPEC.

The energy industry lobbyists have out-gunned the American consumers so far, and their arguments and interests seem of much concern to members of Congress. It's time for the average citizen to get into the act, for American consumers to start writing to Congress and expressing their point of view.

When the President outlines his energy program on national television, as he plans to do shortly, we must all listen carefully and thoughtfully. We may not like all that we hear, for some aspects undoubtedly will involve a personal sacrifice for everyone. And the nature of such sacrifice will and should be debated thoroughly, such as the question of whether and how a tax on so-called gas guzzlers can be imposed

without unfairly penalizing working people who often must drive long distances to work.

I have mixed feelings about some of the points in Carter's program at the moment, but I believe the main thrust of his program is in the proper direction. Most important, he is dramatizing the serious nature of the energy crisis, and insisting that we must have a comprehensive and long-range national policy to deal with it.

Glenn E. Watts, President  
Communications Workers of America

THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

Frank Moore

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson  
cc: The Vice President

RE: HOSPITAL CONTAINMENT -  
PRESS RELEASE BY CALIFANO  
(LETTER FROM TALMADGE)

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION  
FYI

✓	MONDALE
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	SCHULTZE

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	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE WHITE HOUSE  
WASHINGTON

10/20/77

Karen:

Per your request.

Tom Donilon

Frank - This came to  
Tate's attention so  
he has copy.

HERMAN E TALMADGE  
GEORGIA



THE PRESIDENT HAS SEEN.

United States Senate

WASHINGTON, D.C.

October 18, 1977

*Called.  
Herman  
His ok  
J*

My dear Mr. President:

As you know, on October 12 I wrote you, in response to your letters asking my help, pledging my cooperation toward working on and proceeding with a hospital cost containment bill directed toward the objectives of the Administration. I pointed out that I had asked our Committee staff to meet with representatives of the Department of H.E.W. to see whether our concerns could be dealt with in acceptable fashion. I am pleased that the meeting was held on Friday afternoon, October 14. Further follow-up meetings are expected to take place this month.

Against this background of commitment to constructive effort, I was surprised to receive the enclosed press release issued by Secretary Califano which appears to be an effort toward directing pressure on me, my colleagues on the Health Subcommittee, as well as members of the Committee on Ways and Means. This kind of pressure by press release does no one any good.

It is important that the people at H.E.W. concerned with the hospital cost containment proposal understand a very basic fact. Legislation embodying major changes to the Social Security Act and tax laws must, Constitutionally, be acted upon by the House of Representatives. That is because Social Security and tax changes are regarded as revenue-raising measures.

Press releases and statements along the lines of the news release attached are not helpful at all towards a sense of mutual trust in a mutual understanding.

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The President  
Page 2

My offer of cooperation was genuine and I intend to proceed in making every effort towards ultimate passage of an acceptable cost containment bill.

I know that this press release does not represent your views and, for that reason, I thought I would call it to your attention.

With every good wish, I am

Sincerely,



The President  
The White House  
Washington, D. C. 20500

cc: Representative Dan Rostenkowski  
Secretary Califano

Committee  
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U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

FOR IMMEDIATE RELEASE  
Friday, October 14, 1977

Statement by  
Joseph A. Califano, Jr.  
Secretary of Health, Education, and Welfare

Representative Paul G. Rogers and the members of the Subcommittee on Health and the Environment are to be congratulated for completing work on legislation to contain the rapidly rising cost of hospital care. Their action demonstrates a valid and serious concern with the pace of escalation of hospital costs, which are rising 2-1/2 times as fast as other prices. The Senate Committee on Human Resources completed action on this legislation earlier. Now it is up to the Health Subcommittees of the Senate Finance and House Ways and Means Committees--the remaining two groups that must act--to recognize the urgency of the situation and report their bills on hospital cost containment.

The legislation can and must be passed in the current session of Congress. To delay for even four months, until next February, would impose \$2.88 billion in additional hospital bills on the American people the equivalent of almost \$14 for every adult and child in the nation.

# # #

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Jody Powell

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

COPY OF EDITORIAL CWA NEWS -  
ENERGY CRISIS IS FOR REAL

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION  
FYI

	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
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/	POWELL
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	ENROLLED BILL
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	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

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THE PRESIDENT HAS SEEN.  
COPY OF EDITORIAL

CWA NEWS

To day -  
Good news  
J

## ENERGY CRISIS IS FOR REAL

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The reason is that our reserves of fossil fuels are indeed finite, and in the case of petroleum and natural gas, we are dangerously near to exhausting the supplies which can be readily developed. The U.S. is still much too dependent upon foreign petroleum sources, and the outlook for the future in this respect is not good.

Thus, the emphasis on more production at the expense of conservation, taken by the petroleum industry and by the Congress, is short-sighted. The President's description of the attempt to deregulate oil and gas prices as a monumental "rip-off" is an accurate one, I believe.

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Glenn E. Watts, President  
Communications Workers of America

THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

The Vice President

The attached was returned in  
the President's outbox. It is  
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information.

Rick Hutcheson

cc: Hamilton Jordan

RE: "ENERGY CRISIS FOR REAL"

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

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# Communique

by Glenn E. Watts, President



## THE PRESIDENT HAS SEEN Energy Crisis Is for Real

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for Preservation Purposes

File 3  
C



THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

Stu Eizenstat

The attached was returned in the President's  
outbox today. Please inform Secretary  
Blumenthal.

Rick Hutcheson

cc: The Vice President  
Frank Moore

TAX REFORM TIMING: CALLS TO SPEAKER O'NEILL  
AND CHAIRMAN ULLMAN

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

*Sta - pls inform Sec'y Blumenthal*

ACTION	FYI	
	✓	MONDALE
		COSTANZA
✓		EIZENSTAT
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	SCHNEIDERS
	STRAUSS
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	WARREN

THE PRESIDENT HAS SEEN.

*Not done  
J*

THE WHITE HOUSE

WASHINGTON

Electrostatic Copy Made  
for Preservation Purposes

MEMORANDUM FOR:

THE PRESIDENT

FROM:

SECRETARY BLUMENTHAL *WMB*  
STU EIZENSTAT *Stu*  
FRANK MOORE  
BOB GINSBURG

SUBJECT:

Tax Reform Timing: Calls to  
Speaker O'Neill and Chairman Ullman

As you requested, we have attached suggested points for your telephone calls to Speaker O'Neill and Chairman Ullman concerning the timing of our tax reform package. The objectives of the calls are to (a) inform the Speaker and the Chairman that you intend to send the tax reform message to Congress in the last few days of the session, after the energy bill has completed conference and floor action and (b) obtain Chairman Ullman's commitment to expedited action by the Ways and Means Committee on the tax reform proposals, including holding hearings during the recess.

Holding hearings during the recess should not present any insuperable problems: (i) the absence of some Committee members should be no deterrent since it is rare that all members are present for hearings in any event; and (ii) even if a special Subcommittee is holding hearings or a mark-up on welfare reform, this need not stop the Committee as a whole--represented by several members--from holding its hearings on the tax reform measures.

We recommend that you call Speaker O'Neill first and then Chairman Ullman. After you have called Chairman Ullman, it would be helpful for the Speaker to indicate his strong personal interest in this matter to the Chairman and urge the Chairman to commit to your proposed timetable (or express appreciation if the Chairman has already made that commitment to you).

Attachments

## Call to Speaker O'Neill

### 1. Importance of Tax Reform

- Tax reform will be a crucial priority for the Administration and the Democratic Congress in 1978:
  - (a) Tax reform was one of your most fundamental campaign commitments and is one of the few things that almost all Americans, without sharp divisions, want.
  - (b) The Administration's tax reform proposals will provide substantial tax reductions for the overwhelming majority of taxpayers and particularly for low and middle income families.
  - (c) The tax bill will be one of the most important measures taken to ensure strong economic growth and a reduction in unemployment for the remainder of the first term.
- Failure to pass a meaningful tax reform bill in 1978 could have serious adverse consequences for the Administration, the Congress, and the Democratic Party (particularly those Democrats running for re-election).

### 2. Timing of Tax Reform Message

- You intend to send the tax reform message to Congress in the last few days of the session, after the energy bill has been reported out of conference and has passed both Houses of Congress.
- After all the effort put in on the energy bill and the tremendous job the Speaker has done in the House, you want attention focused on a successful conference. You do not want to either divert attention from the job at hand or encourage political tradeoffs between energy and tax reform provisions.

### 3. Timetable for Hearings and Action in the House

- If we are to get a good tax reform bill next year before Congress adjourns for the elections, it is

vital that the bill be through the House and to the Senate by early Spring. Otherwise, we risk running into a major filibuster on the Senate floor late next year, which could jeopardize passage of the bill.

-- Accordingly, it is imperative that Chairman Ullman agree to an expedited timetable for hearings and action by the Ways and Means Committee:

- (a) Three weeks of hearings in November-December, even if most of this time is during the recess.
- (b) One week of hearings in January before Congress reconvenes.
- (c) Completion of hearings by the end of January.
- (d) Completion of Ways and Means action and report of the bill to the House floor by mid to late March.
- (e) House passage within 15 days after the bill has been reported from Ways and Means.

4. O'Neill Communication with Ullman

-- You intend to seek a commitment from Chairman Ullman on the necessary timetable. After you have talked with the Chairman, it would be greatly appreciated if the Speaker would express his strong personal interest in this matter to Chairman Ullman and urge the Chairman to commit to the expedited timetable.

5. Personal Commitment

You will greatly appreciate the Speaker's support on tax reform, to which you are deeply committed and which you regard as a matter of personal credibility.

## Call to Chairman Ullman

### 1. Importance of Tax Reform

- Tax reform will be crucial priority for the Administration and the country in 1978:
  - (a) Tax reform was one of your most fundamental campaign commitments and is one of the few things that almost all Americans, without sharp divisions, want.
  - (b) The Administration's tax reform proposals will provide substantial tax reductions for the overwhelming majority of taxpayers and particularly for low and middle income families. You agree with the Chairman that these reductions should be linked to meaningful reforms.
  - (c) Over the longer run, the tax bill will be one of the most important measures taken to ensure strong economic growth and a reduction in unemployment.
- Failure to pass a meaningful tax reform bill in 1978 will have serious adverse consequences for the Administration, the Congress, and the Democratic Party.

### 2. Timing of Tax Reform Message

- As the Chairman has recommended, you intend to send the tax reform message to Congress in the last few days of the session, after the energy bill has been reported out of conference and has passed both Houses of Congress.
- After all the effort put in on the energy bill and the tremendous job people like the Speaker and the Chairman have done in the House, you want attention focused on a successful conference.

### 3. Timetable for Hearings and Action in the House

- If we are to get a good tax reform bill next year-- one which links real reforms with tax reductions--

it is vital that the bill be through the House and on to the Senate by early Spring. Otherwise, we risk running into a major filibuster on the Senate floor late next year, which could jeopardize passage of the bill.

-- Accordingly, it is imperative that the Chairman agree to an expedited timetable for hearings and action by the Ways and Means Committee:

- (a) Three weeks of hearings in November-December, even if most of this time is during the recess.
- (b) One week of hearings in January before Congress reconvenes.
- (c) Completion of hearings by the end of January.
- (d) Completion of Ways and Means action and report of the bill to the House floor by mid to late March.
- (e) House passage within 15 days after the bill has been reported from Ways and Means.

4. Cooperation with the Chairman

You and the Administration will work closely and cooperate fully with the Chairman. We will have a bill ready for him to mark up by February 1. You will greatly appreciate the Chairman's support on tax reform, to which you are deeply committed and which you regard as a matter of personal credibility.

THE WHITE HOUSE

WASHINGTON

October 20, 1977

Stu Eizenstat  
Frank Moore

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

cc: The Vice President  
Jim McIntyre  
Charles Schultze

RE: FINANCE COMMITTEE VOTE ON  
SOCIAL SECURITY: TELEPHONE  
CALL TO SENS. TALMADGE  
AND BENTSEN



THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
✓		EIZENSTAT
		JORDAN
		LIPSHUTZ
✓		MOORE
		POWELL
		WATSON
✓		LANCE <i>5m</i>
✓		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

For Action Prior to  
10:00 a.m., Thursday,  
October 20, 1977

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 18, 1977

*Called Herman -  
Don't know if it helped -  
He knows more about it  
than I do  
J*

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT  
FRANK MOORE

*Stu  
m,*

SUBJECT:

Finance Committee Vote on Social Security:  
Telephone Call to Senators Talmadge and Bentsen

The Finance Committee remains deadlocked on social security financing legislation. To date they have been equally divided between a plan proposed by Senator Nelson and one proposed by Senator Curtis. They will meet to vote on this Thursday, October 20. We believe that you should call Senators Talmadge and Bentsen to seek their support of the Nelson plan.

Last Saturday we met with Secretary Califano, Secretary Blumenthal, Charlie Schultze, and Jim McIntyre to discuss our strategy for the social security legislation. Blumenthal and Schultze expressed some concern about the economic impact of the eventual package approved by Congress. It was agreed to develop an analysis to guide our actions in the conference committee.

Everyone felt that the immediate problem was to get to the conference committee with a Senate bill which would provide maximum leeway in the negotiations with the House. The plan sponsored by Senator Nelson incorporates many features of the Administration plan and it was agreed that we should seek to get the Nelson plan reported by the Finance Committee.

We suggest the following talking points for your calls to Senator Talmadge and Bentsen:

- It is important that a social security tax bill is passed this year so as not to have to do it during an election year.
- If Talmadge and Bentsen vote with the Democratic members of the committee we can get a bill onto the Senate floor which a majority of Senate Democrats, and a majority of the Senate, can support.

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for Preservation Purposes

- The Nelson plan is the best vehicle with which to go to conference with the House and some of its features will be modified there.
- The Nelson plan is preferable to the Curtis plan because it fulfills your campaign promise to rely on wage base increases rather than tax rate increases. The Nelson plan does not put as large a burden on low and moderate income workers as does the Curtis plan. The higher wage base for employers is more equitable than putting additional burdens on lower wage workers.
- Senators Bentsen and Danforth are working on a plan to reimburse non-profit organizations and state and local governments for the additional costs to them caused by a higher wage base on employers (it is higher for them since they do not receive the benefit of the tax deduction as private businesses do). HEW has already indicated to Senator Danforth that they would be willing to support some form of rebate to non-profit organizations if the higher wage base on employers is agreed to.

The House is expected to vote on their version of the bill on Thursday. The press accounts are likely to stress how much the House bill differs from our proposals. A victory in the Finance Committee on a plan which resembles our proposal will insure that we get some credit for the progress of the social security legislation this year.

You should also note that Secretary Califano is working on Senator Nelson to moderate the big first year jump in the employers' contribution -- covering salaries up to \$100,000 immediately in the Nelson proposal as currently outlined.

Secretary Califano strongly urges that you make these calls.

THE WHITE HOUSE  
WASHINGTON  
October 20, 1977

Stu Eizenstat  
Bob Lipshutz  
Jim Fallows

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

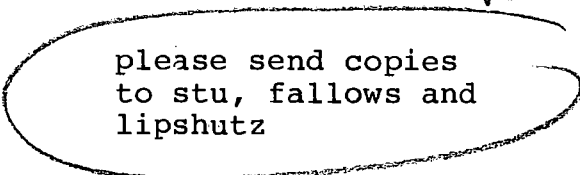
Rick Hutcheson

RE: YOUR CA. REMARKS (IF YOU TOUCH  
ON FOREIGN AFFAIRS)

THE WHITE HOUSE  
WASHINGTON

rick--

president wanted to  
keep original.

A handwritten signature in dark ink, appearing to be 'P. H.' or similar, written in a cursive style.A hand-drawn oval in dark ink, enclosing the text 'please send copies to stu, fallows and lipshutz'.

please send copies  
to stu, fallows and  
lipshutz

(i presume the "bob"  
mentioned is lipshutz)

thanks -- susan

THE WHITE HOUSE  
WASHINGTON

October 19, 1977

cc Sklar/Bob  
Fleming  
J

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI *ZB.*

SUBJECT: Your California Remarks  
(If you touch on Foreign Affairs)

Let me suggest that you address yourself to two themes, human rights and the Middle East. Human rights -- because this is a popular theme, one which helped your popularity, and I believe that there is widespread suspicion that you have retreated on it. A general reaffirmation of your commitment to this theme (without reference to specific countries) will be useful and I believe would also convey something about you personally that is quite appealing, namely dedication to basic values.

You cannot avoid, before that audience, mentioning the Middle East. However, neither a defense or a restatement of your policy is likely to be productive. It will either be suspect or -- if overly reassuring -- potentially conflicting with our ongoing negotiations.

Let me, therefore, suggest a different theme on the subject of the Middle East: that you speak truly from the heart and quite spontaneously about your vision of a Middle East at peace. Drawing on your biblical knowledge, on your genuine dedication to the people of Israel, you could speak quite eloquently and quite spontaneously about what such a peace would mean for the region's human development, social growth, and political security.

You might even borrow Martin Luther King's format and use the phrase several times "I have a vision: along the following lines:

"I have a vision of a land that unites rather than divides the people who inhabit it.

"I have a vision of a land whose people pray together and not fight against each other.

"I have a vision of a land where one dreams of angels instead of seeing soldiers. Etc., etc.

Some of the above may be hyperbole, but you would be the best judge of the mood at the meeting. I think something along these lines could be quite effective for it would convey the needed reassurance without directly catering to irrationality or exaggerated demands. Moreover, knowing as I do know your genuine views on the subject, I am convinced that such a statement of faith by you would be extremely convincing because of its sincerity -- and therefore very effective.

THE WHITE HOUSE  
WASHINGTON

Jody or Rex  
View &  
return

JD

Pl Energy Action P.S.A. b

(202) 737-6220



THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Stu Eizenstat

The attached was returned in  
the President's outbox. It is  
forwarded to you for your  
information.

Rick Hutcheson

RE: SEC. HARRIS' CONCERN WITH  
TAX REFORM

THE WHITE HOUSE  
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI
	MONDALE
	COSTANZA
/	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	LANCE
	SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

~~THE~~ PRESIDENT HAS SEEN

good  
J

THE WHITE HOUSE

WASHINGTON

October 18, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT

Stu

SUBJECT: Secretary Harris' Concern with Tax Reform

After your meeting with Secretary Harris on tax reform, I arranged a meeting with her and Larry Woodworth in my office to go over her specific concerns.

She had three concerns: the reduction in depreciation for subsidized housing after 1981; the reduction in bad debt allowances proposed for savings and loan institutions; and the possible negative impact on cities of extension of the investment tax credit to new industrial structures.

As a result of the meeting, I believe we have resolved each of these issues. On the subsidized housing, we will use 1983 as a date but not indicate that the 200% declining balance write-off will terminate at that date, but rather that an interim investigation on the best way to subsidize this type of low income housing will be completed by that time. In addition, Treasury and HUD will work out new depreciation tables for multi-family non-subsidized housing.

Secretary Harris was essentially moved off of her opposition on the financial institution issue by the explanation that the reduction in the bad debt allowance will be phased in over a five year period, that credit unions will be taxed for the first time, that the bad debt allowance for commercial institutions would be reduced and that it would remain an advantage for savings and loans to put at least 82% of their money into mortgages to qualify for what would still be a more liberal bad debt write-off than other commercial institutions will be afforded.

On the investment tax credit, we were able to convince Secretary Harris that we would leave open the issue, for our urban policy, of a deeper investment tax credit for inner city investment, and would extend the investment tax credit for new structures

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to substantial rehabilitation and renovation of existing industrial structures -- which will be an advantage to plants wishing to stay in central cities.

Thus, I believe we will be able to ameliorate all of her concerns, although we are still working on the details of these three matters. When the details are completed we will present these issues to you for a final decision.

THE WHITE HOUSE  
WASHINGTON

10/20/77

rick--

copies ~~WXX~~ were given to  
frank and ham this morning  
at 8:45 appointment.

this is fyi

-- susan

THE WHITE HOUSE  
WASHINGTON

10-20-77

To Ham & Frank

Let's go all out  
on Marion Edey -

I'll help personally -

J. C.

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9:00 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Watson *Jack* Bruce Kirschenbaum  
SUBJECT: YOUR MEETING WITH CONGRESSMAN ED KOCH  
Thursday, October 20, 1977 at 9:00 a.m.  
(10 minutes) in the Oval Office

I. Press Coverage:

Short photo opportunity at beginning of meeting. Press will be notified that Koch will be available outside after the meeting.

II. Purpose:

The primary purpose of the meeting, arranged at Koch's request, is to demonstrate that he has a good working relationship with you and that the "letter incident" has not created a breach between you.

III. Koch's Agenda:

We have been told by Herman Badillo (good friend of Koch and co-chairman of his mayoral campaign) and by Ed Costikyan (Koch's chief advisor) that Koch will most likely raise the following points (they called to outline the subjects to us since they did not want to do anything that would offend you):

- A. He will suggest that you establish an overall coordinated Cabinet response to the South Bronx.

Recommended Response:

You have already asked me to do so, and I am already working with various Cabinet Secretaries to pull together an overall assessment of the situation. You might mention that I was in the South Bronx on Monday and Tuesday of this week, and that I personally met with both Ed Costikyan and Herman Badillo to discuss my visit and to solicit their ideas and help.

- B. He will ask you to direct HUD to establish a special unit to expedite backlogged housing applications for the City, and for the South Bronx in particular.

Recommended Response:

There is a very considerable backlog, but the HUD area office in New York City is doing 2000 percent better than ever before. In addition, Pat Harris is fully aware of the situation and has asked Bill White in her office to oversee and coordinate HUD's overall response to the problems in the South Bronx.

- C. He will ask you to ask federal agencies to be alert to any federal procurement contracts that might go in to New York City in an effort to alleviate the dire economic conditions that exist in many parts of the City.

Recommended Response:

The awarding of federal procurement contracts based in part on community economic considerations is not allowed under federal laws and regulations. However, recent amendments to the Small Business Act may allow implementation of Defense Manpower Policy #4 (which would permit such considerations to be taken into account), but the contracts would still have to be based on competitive bids.

- D. He will ask you to direct the SBA and EDA to establish alternative bonding procedures so that minority firms can participate in the Local Public Works grants.

Recommended Response:

At Juanita Kreps request, I chaired a meeting at the White House last month with general contractors, banks, bonding companies and minority representatives from all over the country to discuss this very problem. SBA has established special units in the 20 areas of greatest concentration of minority contractors to deal with such bonding problems.

IV. South Bronx Trip (Jack Watson & Bruce Kirschenbaum)

We spent Monday afternoon and night and all day Tuesday in the South Bronx in a series of meetings with numerous groups and individuals. It was an extremely productive visit. In addition to meetings with Mayor Beame and several city



officials, we met with various community groups and with Bob Abrams, Bronx Borough President and several businessmen interested in redeveloping the area. We also met with Ramon Rueda and his People's Development Corporation. (This is the group you spoke with outside their rebuilt "sweat equity" rehabilitated structure with the large mural on the side. Ramon and his fellow-workers are a hardworking, dedicated and hopeful group of young people. We were impressed with their strength and determination to make their small but ambitious project work.)

We also met with other community groups on Tuesday, each of which has a different focus with the same general goal - revitalizing their own area through their own efforts. The business group was very optimistic about bringing back businesses with relatively small amounts of federal leverage. In fact, the most outstanding lesson we learned was that none of the community people that we met with wants a massive federal effort to come in and devise some grand strategy "to save the Bronx." They want modest, reliable, long-term commitments for help that they can plan around.

#### V. Status on NYC Financial Situation

The City has already borrowed \$1.475-billion of its projected \$2.1-billion need for the current fiscal year (July 1, 1977 through June 30, 1978). The average interest rate has been 7.13 percent, which includes the one percent fee which Treasury is required by law to charge.

Consistent with the requirements of the Credit agreement, Treasury has encouraged the City to finance a substantial portion of the remaining \$575-million in seasonal needs through the public markets. There is every indication that the City has been diligent in its efforts to return to the markets. It now appears that State legislation (which will provide adequate security to purchasers of any City notes offered publicly) is the last major obstacle to be overcome before a public sale is attempted. Treasury and Congressional leaders have urged the City and the State to enact this legislation as soon as possible.

The City's timetable for its public sale calls for passage of the state legislation by the end of this month and the sale of the notes by late November. Secretary Blumenthal

may shortly send a letter to City officials, worked out in advance, expressing his support of this timetable and his hope that the City's next borrowing can be done in the markets and not from Treasury.

If the sale is successful, it will be the first public marketing of NYC securities since March of 1975. They will be short-term seasonal notes with less than six months maturity and will meet only a small portion of the City's seasonal needs. There will be much greater difficulty in selling long-term bonds, but that effort must also be undertaken soon.

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Jim McIntyre

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

cc: Rick Hutcheson  
The Vice President  
Stu Eizenstat  
Hamilton Jordan  
Frank Moore  
Zbig Brzezinski

RE: SEA-LEVEL PANAMA CANAL STUDY



THE PRESIDENT HAS SEEN.  
EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

October 6, 1977

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre *Jim McIntyre*  
SUBJECT: Sea-level Panama Canal Study

ISSUE

Should the Administration support legislation to authorize a restudy by the Corps of Engineers of the feasibility of a sea-level Panama Canal?

BACKGROUND

Attached is a copy of Article XII of the Panama Canal Treaty, which commits the U.S. and Panama to study jointly the feasibility of a sea-level canal in Panama. The costs and legislative requirements for such a study to be conducted now by the U.S. Army Corps of Engineers are discussed below. This proposal would be perhaps one way to carry out that commitment.

As you consider it, the proposal should be viewed in the larger context of (a) the impact of the proposal upon obtaining Senate consent on the Treaties and (b) how the proposal would be received in Panama. For example,

Would proposing legislation for the study, while ratification is pending, assist or retard progress toward Senate acceptance of the Treaties? Should the proposal be held up until after ratification?

Does this study proposal meet the commitment for a joint study? What should be Panama's role? Is not a great deal more consultation needed with Panama before getting too far out ahead on the legislation?

These are questions we urge you to take up with Ambassadors Bunker and Linowitz and Secretary Vance before you decide the issue discussed below.

DISCUSSION

The Corps of Engineers - acting as agent for the Atlantic-Pacific Interoceanic Canal Study Commission - completed a study of a sea-level canal in 1970. The sea-level canal would have been located

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in the Republic of Panama with an estimated construction cost of \$2.9 billion at 1970 prices. The Commission, chaired by former Treasury Secretary Robert Anderson - concluded at that time that the construction of the canal should be initiated 15 years before the existing canal reached its capacity - then estimated to be around the end of this century.

The inability of the current canal to accommodate large tankers to transport Alaskan oil directly to the east coast has led to proposals for a reexamination of the feasibility of a sea-level canal by the Corps of Engineers. The Corps estimates that such a canal would cost about \$6.2 billion at today's prices. The Corps could prepare an updated three-year study of the canal at a cost of \$7 million, including a full estimate of the environmental impacts. Of this, \$2 million would be needed for on-site investigations in Panama which would, of course, require the agreement of the Government of Panama.

Authorizing legislation would be needed if the Corps were to undertake this assignment. We would then ask the Corps to reprogram sufficient funds to initiate the study, with first-year costs estimated at \$1.5 million. We understand you will be asked by Senator Gravel to seek specific appropriation for these costs. We do not believe that such appropriations are necessary.

#### Arguments for a restudy

- \$7 million is a relatively small price to pay for an informed assessment of the current engineering, economic and environmental feasibility of a sea-level canal.
- A study is not a commitment to construct, so no irrevocable decision regarding a sea-level canal is involved.
- If current changes in the economics of energy transportation continue, construction of a sea-level canal could prove to be in the national interest and the availability of a current feasibility study would then be highly desirable.

#### Arguments against a restudy

- Administration support for a sea-level canal study by the Corps - even though not a commitment to construct - will be strongly resisted by environmentalists who are concerned about potential adverse environmental and ecological effects from mixing waters from the Pacific and Atlantic Oceans, e.g., introduction of poisonous Pacific sea snakes into the Atlantic. You have received a memorandum from Frank Press on this topic.

- In the short run, it is likely that the existing canal with special arrangements for lightering petroleum to smaller vessels will be satisfactory to meet our needs.
- Many transportation economists question whether the costs of a sea-level canal could be recovered from tolls even if the energy transportation problem worsens.

PRESIDENTIAL DECISION

- ☐ Propose legislation to authorize study of sea-level canal by Corps of Engineers.
- ☒ Do not support legislation to authorize study.

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## ARTICLE XII

### A SEA-LEVEL CANAL OR A THIRD LANE OF LOCKS

1. The United States of America and the Republic of Panama recognize that a sea-level canal may be important for international navigation in the future. Consequently, during the duration of this Treaty, both Parties commit themselves to study jointly the feasibility of a sea-level canal in the Republic of Panama, and in the event they determine that such a waterway is necessary, they shall negotiate terms, agreeable to both Parties, for its construction.

2. The United States of America and the Republic of Panama agree on the following:

(a) No new interoceanic canal shall be constructed in the territory of the Republic of Panama during the duration of this Treaty, except in accordance with the provisions of this Treaty, or as the two Parties may otherwise agree; and

(b) During the duration of this Treaty, the United States of America shall not negotiate with third States for the right to construct an interoceanic canal on any other route in the Western Hemisphere, except as the two Parties may otherwise agree.

3. The Republic of Panama grants to the United States of America the right to add a third lane of locks to the existing Panama Canal. This right may be exercised at any time during the duration of this Treaty, provided that the United States of America has delivered to the Republic of Panama copies of the plans for such construction.

4. In the event the United States of America exercises the right granted in paragraph 3 above, it may use for that purpose, in addition to the areas otherwise made available to the United States of America pursuant to this Treaty, such other areas as the two Parties may agree upon. The terms and conditions applicable to Canal operating areas made available by the Republic of Panama for the use of the United States of America pursuant to Article III of this Treaty shall apply in a similar manner to such additional areas.

5. In the construction of the aforesaid works, the United States of America shall not use nuclear excavation techniques without the previous consent of the Republic of Panama.





MEMORANDUM

THE WHITE HOUSE

WASHINGTON

19 October 1977

TO: THE PRESIDENT

FROM: RICK HUTCHESON *R.H.*

SUBJECT: Summary of Staff Comments on McIntyre Memo, "Sea-Level Panama Canal Study"

NSC and State: recommend that you should not support legislation authorizing a sea-level Panama Canal feasibility study prior to completion of the Treaty ratification process:

- o the proposal risks antagonizing the Panamanians. The Treaty calls for a joint feasibility study; the proposal calls for a unilateral study by the U.S. alone. Treaty opponents in Panama would seize on our action as evidence of U.S. bad faith. The Torrijos Government would conclude that the U.S. was attempting to complete the study without Panamanian participation, and would accuse us of undermining the Treaty;
- o Administration support for this bill will stir up a debate on the Hill on the Treaty's sea-level canal provision (which has been criticized by Sen. Hollings and others);
- o Treaty opponents would charge the Administration with attempting to circumvent the ratification process by implementing a section of the treaty by special legislation;
- o environmentalists strongly oppose a sea-level canal;
- o the study could serve as a pretext for delaying ratification (on the ground that if a sea-level canal is soon to be constructed, we do not need the new treaties;
- o Administration support could provoke a debate which could be a surrogate of the final debate on the Canal Treaties; if this bill is defeated, it would hurt the momentum for Treaty ratification.

The State Department's views include the views of Linowitz and Bunker.

CEQ: favours the proposed study on the basis of environmental considerations. Warren says that, on the basis of various consultations with environmental leaders, he "does not believe most environmentalists will oppose the study. On the contrary, most feel such a study is desirable [provided that]:"

- o it is absolutely clear that the study does not constitute a commitment to construct;
- o the study honestly and completely covers the environmental considerations involved; some objective scientific party (i.e. National Academy of Sciences) should be involved in the study;
- o the recommendations of the study must reflect the environmental as well as other conclusions (many environmentalists feel that this was not done in the 1970 study).

Frank Press: recently informed you of a National Academy of Sciences study indicating that a sea-level canal could have serious ecological consequences; thus there is scientific justification for a study. However, he feels that political considerations relating to passing the Treaty are paramount.

Senate Congressional Liaison: thinks the Administration should support the legislation: "assuming there are minimal adverse diplomatic impacts... The sea-level canal is an important selling point with a few Senators (e.g., Melcher, Stevens). Consequently, proof that we are serious enough to study the proposal should help to bring these people into our camp. If a vote for this proposal is relatively painless, and we think it will be, key Senators may be more inclined to support us next year when the treaties are considered. Senators Cranston and Gravel strongly support this 'toe in the door' approach." Other points:

- o Treaty opponents would be hard-pressed to muster reasons for opposing a feasibility study; the issue would not be emotional;
- o there would be some environmental opposition even to studying the concept of a sea-level canal; thus the legislation should specifically direct that both economic and environmental factors be considered;
- o Treaty opponents would be expected to try to broaden the study to include routes through other countries.

Aragon (for Jordan): recommends that you support legislation authorizing a study of a sea-level canal on the condition that the strong interest and support expressed by Sen. Cranston and others remains unchanged.

Frank Moore's office seems confident that the groundwork has been carefully laid for this amendment in both Senate and House by Senators Cranston and Gravel. Cranston and Gravel do not believe the proposal would become a "test" vote on the Treaty, or the target of anti-Treaty forces. (In fact, they anticipate a favorable vote with a good margin, which could be construed as a vote of confidence for the Treaty.)

The study might not necessarily violate Article 12; the Corps of Engineers could bring Panama into the study, and in effect, conduct a joint study.

Eizenstat: has no objection to the study, suggesting that your decision depends on advice from your congressional and diplomatic advisors. Stu does observe that controversy relating to the environmental impact of a sea-level canal could lengthen congressional deliberations, and add confusion to the Treaty issue.

THE WHITE HOUSE  
WASHINGTON

Date: October 11, 1977

MEMORANDUM

FOR ACTION:

Secretary Vance - attached

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6 re Sea-Level Panama Canal Study

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: Thursday

DATE: October 13, 1977

ACTION REQUESTED:

☒ Your comments

Other:

Please obtain the views of Ambassadors Linowitz  
and Bunker, and include them in your response.

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



THE WHITE HOUSE

WASHINGTON

Date: October 6, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat *attached*

Hamilton Jordan - *attached*

Frank Moore (Les Francis) *attached* The Vice President

Jack Watson *nc*

Zbig Brzezinski *attached*

Frank Press *attached*

Charles Warren - *attached*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: SATURDAY

DATE: OCTOBER 8, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: October 6, 1977

MEMORANDUM

## FOR ACTION:

Stu Eizenstat  
Hamilton Jordan  
Frank Moore (Les Francis)  
Jack Watson  
Zbig Brzezinski  
Frank Press

## FOR INFORMATION:

The Vice President

XC: STATE  
CABLE  
FM

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

Bob

YOUR RESPONSE MUST BE DELIVERED  
TO THE ~~STAFF~~ SECRETARY BY:

TIME: 12:00 NOON

DAY: SATURDAY

DATE: OCTOBER 8, 1977

## ACTION REQUESTED:

☒ Your comments

Other:

## STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:***PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: October 6, 1977

MEMORANDUM

## FOR ACTION:

Stu Eizenstat  
Hamilton Jordan  
Frank Moore (Les Francis)  
Jack Watson  
Zbig Brzezinski  
Frank Press  
Charles Warren

## FOR INFORMATION:

The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: SATURDAY

DATE: OCTOBER 8, 1977

## ACTION REQUESTED:

☒ Your comments

Other:

## STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:***PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

42

WASHINGTON

Date: October 6, 1977

MEMORANDUM

**FOR ACTION:**

Stu Eizenstat  
Hamilton Jordan

Frank Moore (Les Francis)

Jack Watson

Zbig Brzezinski

Frank Press

**FOR INFORMATION:**

The Vice President

**FROM:** Rick Hutcheson, Staff Secretary

**SUBJECT:** McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

**YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:**

**TIME: 12:00 NOON**

**DAY: SATURDAY**

**DATE: OCTOBER 8, 1977**

**ACTION REQUESTED:**

☒ Your comments

Other:

**STAFF RESPONSE:**

☐ I concur.

☐ No comment.

*Please note other comments below:*

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



Date: October 6, 1977

MEMORANDUM

## FOR ACTION:

Stu Eizenstat  
Hamilton Jordan  
Frank Moore (Les Francis)  
Jack Watson  
Zbig Brzezinski  
Frank Press

## FOR INFORMATION:

The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: SATURDAY

DATE: OCTOBER 8, 1977

## ACTION REQUESTED:

☒ Your comments

Other:

## STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:***PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

October 6, 1977

7726079

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre *Jim McIntyre*  
SUBJECT: Sea-level Panama Canal Study

ISSUE

Should the Administration support legislation to authorize a restudy by the Corps of Engineers of the feasibility of a sea-level Panama Canal?

BACKGROUND

Attached is a copy of Article XII of the Panama Canal Treaty, which commits the U.S. and Panama to study jointly the feasibility of a sea-level canal in Panama. The costs and legislative requirements for such a study to be conducted now by the U.S. Army Corps of Engineers are discussed below. This proposal would be perhaps one way to carry out that commitment.

As you consider it, the proposal should be viewed in the larger context of (a) the impact of the proposal upon obtaining Senate consent on the Treaties and (b) how the proposal would be received in Panama. For example,

Would proposing legislation for the study, while ratification is pending, assist or retard progress toward Senate acceptance of the Treaties? Should the proposal be held up until after ratification?

Does this study proposal meet the commitment for a joint study? What should be Panama's role? Is not a great deal more consultation needed with Panama before getting too far out ahead on the legislation?

These are questions we urge you to take up with Ambassadors Bunker and Linowitz and Secretary Vance before you decide the issue discussed below.

DISCUSSION

The Corps of Engineers - acting as agent for the Atlantic-Pacific Inter-oceanic Canal Study Commission - completed a study of a sea-level canal in 1970. The sea-level canal would have been located

in the Republic of Panama with an estimated construction cost of \$2.9 billion at 1970 prices. The Commission, chaired by former Treasury Secretary Robert Anderson - concluded at that time that the construction of the canal should be initiated 15 years before the existing canal reached its capacity - then estimated to be around the end of this century.

The inability of the current canal to accommodate large tankers to transport Alaskan oil directly to the east coast has led to proposals for a reexamination of the feasibility of a sea-level canal by the Corps of Engineers. The Corps estimates that such a canal would cost about \$6.2 billion at today's prices. The Corps could prepare an updated three-year study of the canal at a cost of \$7 million, including a full estimate of the environmental impacts. Of this, \$2 million would be needed for on-site investigations in Panama which would, of course, require the agreement of the Government of Panama.

Authorizing legislation would be needed if the Corps were to undertake this assignment. We would then ask the Corps to reprogram sufficient funds to initiate the study, with first-year costs estimated at \$1.5 million. We understand you will be asked by Senator Gravel to seek specific appropriation for these costs. We do not believe that such appropriations are necessary.

#### Arguments for a restudy

- \$7 million is a relatively small price to pay for an informed assessment of the current engineering, economic and environmental feasibility of a sea-level canal.
- A study is not a commitment to construct, so no irrevocable decision regarding a sea-level canal is involved.
- If current changes in the economics of energy transportation continue, construction of a sea-level canal could prove to be in the national interest and the availability of a current feasibility study would then be highly desirable.

#### Arguments against a restudy

- Administration support for a sea-level canal study by the Corps - even though not a commitment to construct - will be strongly resisted by environmentalists who are concerned about potential adverse environmental and ecological effects from mixing waters from the Pacific and Atlantic Oceans, e.g., introduction of poisonous Pacific sea snakes into the Atlantic. You have received a memorandum from Frank Press on this topic.

- In the short run, it is likely that the existing canal with special arrangements for lightering petroleum to smaller vessels will be satisfactory to meet our needs.
- Many transportation economists question whether the costs of a sea-level canal could be recovered from tolls even if the energy transportation problem worsens.

PRESIDENTIAL DECISION

\_\_\_\_\_ Propose legislation to authorize study of sea-level canal by Corps of Engineers.

\_\_\_\_\_ Do not support legislation to authorize study.

## ARTICLE XII

### A SEA-LEVEL CANAL OR A THIRD LANE OF LOCKS

1. The United States of America and the Republic of Panama recognize that a sea-level canal may be important for international navigation in the future. Consequently, during the duration of this Treaty, both Parties commit themselves to study jointly the feasibility of a sea-level canal in the Republic of Panama, and in the event they determine that such a waterway is necessary, they shall negotiate terms, agreeable to both Parties, for its construction.

2. The United States of America and the Republic of Panama agree on the following:

(a) No new interoceanic canal shall be constructed in the territory of the Republic of Panama during the duration of this Treaty, except in accordance with the provisions of this Treaty, or as the two Parties may otherwise agree; and

(b) During the duration of this Treaty, the United States of America shall not negotiate with third States for the right to construct an interoceanic canal on any other route in the Western Hemisphere, except as the two Parties may otherwise agree.

3. The Republic of Panama grants to the United States of America the right to add a third lane of locks to the existing Panama Canal. This right may be exercised at any time during the duration of this Treaty, provided that the United States of America has delivered to the Republic of Panama copies of the plans for such construction.

4. In the event the United States of America exercises the right granted in paragraph 3 above, it may use for that purpose, in addition to the areas otherwise made available to the United States of America pursuant to this Treaty, such other areas as the two Parties may agree upon. The terms and conditions applicable to Canal operating areas made available by the Republic of Panama for the use of the United States of America pursuant to Article III of this Treaty shall apply in a similar manner to such additional areas.

5. In the construction of the aforesaid works, the United States of America shall not use nuclear excavation techniques without the previous consent of the Republic of Panama.

SENATE LIAISON COMMENT ON OCTOBER 6 McINTYRE MEMO:

We concur with McIntyre's recommendation that Linowitz, Bunker and Vance be consulted prior to a final decision on this proposal.

We do think the Administration should support the legislation, assuming there are minimal adverse diplomatic impacts. Treaty opponents will be hard-pressed to muster reasons for opposing a feasibility study of a Panamanian sea-level canal. The issue would not be an emotional one and many Senators will see the need for updating figures on economic feasibility of the project.

However, we should expect treaty opponents to move to broaden the study to include routes through other countries as well.

To avoid environmental opposition, the proposed legislation should specifically direct the Corps to consider both economic and environmental factors when judging the canal's feasibility. We can still expect some environmental opposition to even studying the concept of a sea-level canal.

The sea-level canal is an important selling point with a few Senators (e.g., Melcher, Stevens). Consequently, proof that we are serious enough to study the propos should help to bring these people into our camp. If a vote for this proposal is relatively painless, and we think it will be, key Senators may be more inclined to support us next year when the treaties are considered. Senators Cranston and Gravel strongly support this "toe in the door" approach.

# WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	FROM Tarnoff to Hutcheson (2 pp.) re: Sea-Level Canal in Panama 2 copies/ enclosed in Hutcheson to McIntyre et al. 10/20/77	10/15/77	A
memo	From Schultze to The President (8 pp.) re: Modifications on Tax Reform/ enclosed in Hutcheson to Eizenstat 10/20/77	10/20/77	A

## FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.- Pres. Hand-writing File 10/20/77 [1] BOX 60

## RESTRICTION CODES

- (A) Closed by Executive Order 12356 governing access to national security information.
- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE WHITE HOUSE

WASHINGTON

October 7, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: JOE ARAGON JA

SUBJECT: SEA-LEVEL PANAMA CANAL STUDY

RECOMMENDATION

That you propose legislation to authorize a study of a sea-level canal on the condition that the strong interest and support expressed by Senator Cranston and others remains unchanged.

DISCUSSION

Senator Cranston and Senator Gravel both feel that the \$7 million required for this study could be authorized by an amendment to the Water Resources Bill. It is their opinion that legislation for the study approached in this manner will pass through the Congress without any difficulty. To this end, Bob Thomson of Frank Moore's office and Alan Krebs of Senator Cranston's office assure me that the groundwork has been carefully laid in both the House and the Senate by Cranston, Gravel and others for this amendment.

With regard to the question of whether or not such legislation might be construed as a "test" vote on the Panama Canal treaties and thus might become the target of anti-treaty forces, both Cranston and Gravel apparently feel that no serious problem will result. In fact, they anticipate a favorable vote by a comfortable margin such that it could be construed subsequently as a vote of confidence for the Panama Canal treaty initiative.

With regard to the second concern, i.e., that such a study might prematurely violate those provisions of Article 12 of the treaty which require a joint study, Bob Thomson points out that since the Corps of Engineers acts as the agent, the Corps could bring Panamanians into the study and thus, in effect, conduct a joint study. There would be no incompatibility with Article 12.

In light of these assurances I believe that you should propose the legislation requesting funds for the study. However, we should remain in close contact with both Senators until the legislation is introduced to make sure that there is no change in the outlook for the legislation.

Last, I believe it would be wise to consult with Ambassadors Linowitz and/or Bunker before making any final decision on this.



THE WHITE HOUSE

WASHINGTON

October 11, 1977

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT

*Stu*

SUBJECT:

Proposal for Feasibility Study for  
Sea-level Panama Canal

OMB has laid out a proposal for moving ahead with a study by the Corps of Engineers of the feasibility of a sea-level Panama Canal, should you feel it is desirable and timely to proceed. Apparently Senator Gravel has asked that we support such a study.

At the present time, there is no authorization for a feasibility study. We would have to seek Congressional authorization, followed by reprogramming of funds (OMB preference) or specific appropriations.

The cost of the study would be \$7 million, \$1.5 million to be spent in the first year.

Determining whether to proceed with this proposal is in my view primarily a political and diplomatic decision. The views of Ambassadors Linowitz and Bunker and Secretary Vance should indicate whether they feel this is a timely proposal. The Congressional politics should be Frank's call. Both Senators Gravel and Cranston apparently feel that the treaty ratification efforts will be somewhat enhanced by initiating this feasibility study. However, there will be controversy on the environmental aspects which could mean lengthy Congressional deliberations and which could add to the confusion on the treaty issue.

You should be aware that both the costs and the environmental impacts of a sea-level canal may be very large. Frank Press has just completed an analysis which indicates that the environmental problems are severe; OMB points out that the estimated cost of the canal has escalated from \$2.9 billion in 1970 to more than \$7 billion today.

If, on balance, seeking authorization for the study will be politically helpful, and if Ambassadors Linowitz and Bunker and Secretary Vance feel that the study is consistent with the treaty, I do not object to approving the effort to seek authorization for study. However, the following points should be taken into account:

- The study should include environmental as well as economic and engineering feasibility.
- The study, when authorized, should be funded with reprogrammed money rather than a specific appropriation.
- Expectations should not be raised that the sea-level canal proposal will in fact turn out to be economically and environmentally feasible.

Date: October 6, 1977

MEMORANDUM

## FOR ACTION:

Stu Eizenstat  
Hamilton Jordan  
Frank Moore (Les Francis)  
Jack Watson  
Zbig Brzezinski  
Frank Press

## FOR INFORMATION:

The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 10/6/77 re Sea-level Panama Canal Study

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 NOON

DAY: SATURDAY

DATE: OCTOBER 8, 1977

## ACTION REQUESTED:

☒ Your comments

Other:

## STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:*

A recent assessment by the National Academy of Sciences indicates that a sea-level canal could have serious ecological consequences. There is thus some scientific justification for commencing a study of a canal promptly so as to provide a substantial timeframe for the collection of baseline data and for the performance of the research that will be needed for a detailed consideration of a sea-level canal and its ecological effects. In our view, however, the ecological and engineering issues are not the primary ones to be considered. The President must evaluate the wisdom of proceeding with a study now in light of the impact of this action on the ratification of the treaties by the Senate.

78  
Frank Press

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL ON ENVIRONMENTAL QUALITY  
722 JACKSON PLACE, N. W.  
WASHINGTON, D. C. 20006

October 8, 1977

MEMORANDUM FOR RICK HUTCHESON

FROM: Charles Warren *C.W.*

SUBJECT: Comments on McIntyre Memo re Sea-level Panama Canal Study

On the basis of environmental considerations we are in favor of the proposed study under the conditions noted below.

On page 2 of the memo under "Arguments against a restudy" it is stated that Administration support for the study will be strongly resisted by environmentalists. This issue has been raised frequently in our consultations with environmentalists and scientists. It was discussed again yesterday at the regular Friday luncheon meeting I hold with environmental leaders. On the basis of these consultations I do not believe most environmentalists will oppose the study. On the contrary, most feel such a study is desirable as long as three conditions are met:

1. It is absolutely clear and explicit that the study does not constitute a commitment to construct. In a case like this there is always suspicion that a study is the first step in a pre-determined course of action. That fear could lead to opposition to the study. A strong and unequivocal statement by the President could help allay this concern.

2. The study honestly and completely covers the environmental considerations involved. To achieve real credibility the environmental aspects of such a study should be conducted or reviewed by a scientific party which is objective and not involved with the project. The National Academy of Sciences and the Institute of Ecology are obvious possibilities. If the Academy does not conduct the study of environmental considerations, it should review that part of the study and its results, and that review should be an integral part of the overall study. This is particularly crucial since hard data on some of the effects of mixing Atlantic and Pacific life forms cannot be obtained in a three year study, therefore some of the results must be judgemental.

3. The study conclusions and recommendations reflect the environmental as well as other results of the study. There is widespread conviction among the environmentalists and the scientists involved that the pro-construction conclusions of the 1970 study ignored the findings of the environmental portions of the study and could not be justified by them. This point was raised repeatedly during the recent Academy review which Frank Press commissioned. It should be made clear that this will not happen again.

Many environmentalists oppose the construction of a sea level canal because of the potentially serious environmental impacts, particularly those from mixing life forms from both oceans. However, they recognize that consideration of such a canal will continue to be raised, with or without the present treaty. Consequently they recognize the need for an objective, comprehensive study which adequately takes environmental considerations into account.

## MEMORANDUM

## NATIONAL SECURITY COUNCIL

October 8, 1977

MEMORANDUM FOR:

RICK HUTCHESON

FROM:

CHRISTINE DODSON *Christine*

SUBJECT:

Sea-Level Panama Canal Study

There are four reasons why we should not support this bill authorizing \$7 million for a feasibility study on the Panama Canal.

First, the proposal is premature; it pre-empts the treaty, which calls for a joint feasibility study. It does not seem an appropriate time to undertake a unilateral study on a sea-level canal just when we are trying to sell a treaty based on the principle of partnership with the Panamanians. Furthermore, it's not likely to be perceived as a friendly or cooperative gesture by the Panamanians. It seems a relatively unimportant matter on which to risk antagonizing the Panamanians. Since we are likely to continue to need their continued cooperation and good faith throughout the ratification process, it would be a mistake to aggravate them by supporting such legislation.


Secondly, Administration support for this bill will stir up a debate on the Hill on the treaty's sea-level canal provision. Fritz Hollings and others have criticized the provision for giving up the right to build a sea-level canal in Nicaragua. Hollings' criticism and the entire issue have been buried under an avalanche of other issues. Why flag the issue now?

Third, the environmentalists strongly oppose a sea-level canal, and while there are arguments to be used against them (the feasibility study will include another environmental impact statement), we don't want to fight that fight now, and we don't want to unnecessarily antagonize any other groups which would be normally disinterested or supportive of the treaties.

Finally, Administration support will likely provoke a debate which may be a surrogate and a precursor of the final debate on the Canal Treaties. If we lose this vote, and we could because there are people who might

oppose this bill even though they might support the treaties (environmental concern; not wanting to pre-empt the treaties; fiscal conservatives) -- if we lose a vote on this bill, it would hurt in trying to gain the momentum to push for treaty ratification.

If Frank Moore thinks that opposing this provision might antagonize some important friends of the treaty, then we might want to consider offering a compromise formula, which would authorize the \$7 million for a joint study with the Panamanians, either after the treaty comes into effect or at the earliest time mutually convenient with the Panamanians.

Concur:   
Jerry Schecter

THE WHITE HOUSE  
WASHINGTON

October 20, 1977

Stu Eizenstat  
Jack Watson

Attached are GSA and Commerce's  
comments on Brzezinski's memo  
concerning Tin-for-Copper  
Barter.

Rick Hutcheson

SECRET ATTACHMENT





~~SECRET~~

OCTOBER 20, 1977

MEMORANDUM FOR RICK HUTCHESON  
White House Staff Secretary

SUBJECT: Comments on SECRET Brzezinski Memorandum  
Dated October 15, 1977 re Tin-for-Copper Barter in  
GSA Stockpile

(U) The General Services Administration does not support the Domenici bill because first, it violates the basic premise of the President's new stockpile policy; second, the amounts proposed for tin disposal in the bill would be very disruptive of markets. Finally, the bill may be viewed as an attempt to bypass the Congressional stockpile subcommittees chaired by Senator Hart and Representative Bennett.

(S) There is one point raised by the "copper problem" that relates to new and previous stockpile policies that the President might wish to consider: neither the new stockpile policy nor those developed in the recent past provide guidance relating to the acquisition of materials on a "target of opportunity" basis, i. e., deviating slightly from the regular plan to exploit dollar-savings potentials.

(C) For example, a copper acquisition of approximately 340,000 short tons for general civilian needs in the first war year is called for under the planning scenario that provides for a one-year mobilization; no copper is needed for the first year of the war if there is not prior mobilization. The former scenario reflects the President's overall stockpile policy guidance, while the latter reflects his priority plan for acquisitions.

(C) Presumably NSDM 337 will be implemented in its entirety following the acquisitions that have been given priority at the present time. If this is the case, copper will be included in the FY 1981 acquisitions.

~~SECRET~~

Jay 2/5/80  
GDS

(C) The cost of copper is expected to rise by 1981. A conservative econometric projection of the cost of copper in 1981 would indicate that the purchase of 250,000 short tons now rather than then would result in a savings to the government of \$95 million. Furthermore, this course would prevent the loss of domestic production capacity in the copper industry. Such a loss would necessitate higher stockpile goals causing additional future acquisition costs.

(C) Consequently, the President may wish to make an exception to the Annual Materials Plan acquisitions policy in the form of a purchase of copper in addition to the scheduled purchases for FY 78 and FY 79.

(C) Notwithstanding the merits of a copper purchase, the President should be made aware that should he look favorably on granting an exception to his existing acquisitions policy, his critics would likely accuse him of using the Strategic and Critical Materials Stockpile for economic purposes, an action contrary to law. An alternative which might be feasible would be the use of the Defense Production Act of 1950 (DPA), as amended. Title III of the DPA provides for expansion of domestic production capacity for purposes of meeting a national emergency and provides, "for the purchases of ... metals ... for Government use..." I believe that DPA might be used to avert the loss of capacity, since it would be unreasonable to first lose the capacity and then support a program to expand it.

(C) This whole issue highlights the necessity of quick implementation of a stockpile acquisition and disposal program. This, in turn, makes a compromise with Congressman Charles Bennett (Chairman of the Subcommittee on Seapower and Strategic and Critical Materials, House Committee on Armed Services) concerning his Special Fund an imperative. This Fund would earmark receipts from stockpile disposals for stockpile acquisitions.

I believe that the domestic copper industry situation is serious enough to warrant detailed examination as a Domestic Policy Review Issue. I will recommend such action by future communication.

  
JAY SOLOMON  
Administrator

~~SECRET~~



~~SECRET~~

October 20, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Comments on Dr. Brzezinski's Memorandum  
of October 15, on a Tin-for-Copper Barter

This is a response to Rick Hutcheson's request for comments on Dr. Brzezinski's memorandum dated October 15, 1977, on the stockpile tin-for-copper barter report which I included in my weekly report to you on October 7, 1977.

The barter, or some other sale/purchase arrangement, has been proposed by U.S. copper industry executives to relieve a large international inventory overhang that has severely depressed the domestic market and forced a number of copper mine closings. Senator Domenici has been attempting to attach the barter authority as a rider to pending major legislation.

In his memorandum, Dr. Brzezinski recommends against the barter because it:

- "1. Is inconsistent with a stockpile policy based on national security needs,
2. Could disrupt the world tin market, and
3. Damage our relations with other signatories to the ITA (International Tin Agreement) particularly the developing countries."

My comments on these points follow:

Stockpile Policy

Dr. Brzezinski correctly notes that copper has a low priority in the recently approved GSA stockpile acquisition program. An exception to this carefully drawn policy so soon after its development should require strong justification. A formal

~~SECRET~~

*Jay 2/5/90*

~~SECRET~~

2

position has not been reached here in Commerce on the issue, but the following factors apply:

1. An acquisition of copper at this time would provide considerable cost savings to the Government by permitting GSA to purchase copper for stockpiling at its present depressed price level of about 55¢/lb.;
2. Even though copper acquisition is a low priority item, there is no copper currently in the National Stockpile;
3. Since the time of the original stockpile policy review, there have been several closings of domestic copper mines (and consequent creation of unemployment). A prolongation or proliferation of such closings could invalidate the basis on which the present priority for stockpiling copper was determined; and
4. Stockpile inventories of tin are currently in excess of the new stockpile goals. Their disposal, therefore, would be appropriate.

#### Mobilization Base

In addition to material acquisitions for the National Stockpile, another mechanism exists which could also be used to acquire copper. Under the Defense Production Act of 1950, as amended (Title III), authority exists for purchases of materials if such support is necessary to maintain the industrial mobilization base of the Nation. Acquisitions under the Title III authority are stored in the Defense Production Act Inventory. Such acquisitions may then be transferred to the Strategic and Critical Materials Stockpile in accordance with the priority of filling stockpile inventory goals.

#### International Implications

At present, tin is selling at a record \$5.50/lb. on the international market, as the result of a severe short supply situation caused by a prolonged gap between world consumption and production and the cessation of sales from the U.S. stockpile due to exhaustion of legislative authority.

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(High taxes and other domestic factors have reduced mining incentives in recent years.) International Tin Agreement stocks of tin are depleted and therefore that mechanism has been unable to maintain the price of tin at or below the agreed ceiling. Under the circumstances, all indications are that the major producers would welcome a disposal of stockpile tin to ease the current shortage until more capacity is available.

It is unclear that such action would disrupt the world tin market and adversely affect our relations with the principal tin producers. To the contrary, according to the attached AMERICAN METAL MARKET articles, government officials from Malaysia and Indonesia have publicly stated their support for a release of tin from the GSA stockpile. In addition, the Malaysian Minister of Primary Industries stated earlier this year at a press conference in New York (March 4, 1977), that his consultations with Bolivian officials indicated that that government would not oppose a release of tin from the U.S. stockpile.

Also, it should be noted that GSA, responsible for administering stockpile acquisitions and disposals, must under the provisions of the Strategic and Critical Stockpiling Act of 1946 dispose of a material (i.e., tin) in such a manner as to avoid disrupting the market for that commodity. Any sale of tin would be accomplished only after an appropriate analysis of the manner of disposal had been completed to assure no market disruption would occur.

#### Legislative Status

Senator Peter V. Domenici (New Mexico) is attempting to attach a proposal authorizing the tin-copper barter as an amendment to legislation now pending before the Senate. A recent attempt to add the proposal to the Utility Rate Reform bill failed. A current effort in the Senate to amend the Endangered American Wilderness bill (S. 1180), passed by the House, may be successful.

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Such an initiative must come from the Senate, which does not generally require that amendments be germane.

In the House, Representative Morris Udall is leading the support for the proposal. Any direct legislative stockpile proposals must be approved by Representative Charles E. Bennett's Subcommittee on Sea Power and Strategic Stockpiling, who will not consider new initiatives until attention is given to his own bill (H.R. 4895) to amend the Strategic and Critical Stockpiling Act of 1946 by establishing a revolving fund and a barter authority for stockpile acquisitions and disposals. We understand that mutual agreement has been reached on both proposals.

#### Conclusion

I believe that the copper industry's proposal has sufficient merit to deserve further review, and I recommend that an interagency task force be established to accomplish that review.

  
Sidney Harman  
Acting Secretary

#### Attachment

- \_\_\_\_\_ Approve Interagency Task Force
- \_\_\_\_\_ Disapprove
- \_\_\_\_\_ Other

~~SECRET~~



INDONESIA'S SADLI: "The buffer stock has been fairly able to protect the minimum price . . . but it hasn't been able to protect the maximum."

## Indonesia Suggests US Release Stockpiled Tin

By HARRY STEINBERG

NEW YORK — The only short-term solution to the continuing upward spiral of tin prices would be a release of tin from the United States strategic stockpile, according to Indonesia's Minister of Mines Mohammad Sadli.

That release, he said would have to be over and above the 5,000 tons of metal already pledged to the International Tin Council (ITC) buffer stock by the Carter administration.

For the longer term, he told American Metal Market in an interview, an international program to solve the investment problem will be needed.

A slowdown in investment in new tin dredges, mines and smelters is

(Continued on page 12)



# Indonesia Recommends US Release Stockpiled Tin

(Continued from first page)  
being blamed for dwindling world production of the metal and a shortage which is now driving prices to record high levels.

"I'll be happy if we can get 25,000 tons this year," Sadli said, discussing Indonesia's production of the metal. Last year, production dipped to about 23,500 metric tons from a 1974 record of 25,000 tons.

He explained that the fall-off in production was due to the recession there which saw a drop in investment in tin facilities as well as the weakness in management.

Sadli also blamed the consuming

nations for the failure of the ITC buffer stock to control prices, saying they've been reluctant to contribute metal to the stock, which has been barren since last January.

"The buffer stock has been fairly able to protect the minimum price and protect the interest of the producers," he explained, "but it hasn't been able to protect the maximum and the interest of the consumers."

Sadli said he would like to see the size of the buffer stock doubled to 40,000 tons, and would also like to see contributions from consuming nations such as Japan and West

Germany, which have so far been holding back.

"Some of these die-hard consumers trust Adam Smith too much and they feel that the market will rectify itself," he said, adding that he was "optimistic" that Japan and Germany would ultimately contribute to the buffer stock.

"Germany is most conservative in economic policy," he said. "Japan is pragmatically conservative."

Once those nations make a contribution of tin metal, he said, the ice will be broken and the stockpile will be able to function as it should.

He added he didn't put much credence in Bolivia's call for the formation of a tin cartel along the lines of the Organization of Petroleum Exporting Countries (OPEC), but he acknowledged that tin was ripe for cartelization.

Production of the metal is concentrated among four nations — Malaysia, Bolivia, Indonesia and Thailand — and three of those nations are already united in the Association of South East Asian Nations (ASEAN). "Bolivia is already playing the radical," he added.

But, he said, "We don't have the appetite. We want to solve not only

the tin problem but the problems of other commodities as well. We will not treat tin as a special opportunistic chance to make big profits through cartelization."

On the high price of tin, Sadli said, "We're happy because we're earning a lot of money, but we're afraid users will run away to plastics and aluminum."

Sadli added that Indonesia has ordered a new tin dredge and is moving for the first time into off-shore mining. The dredge, which will cost about \$50-million, may see an increase in production of about 5,000 tons.

While the pricing of tin has posed no problem, the price of copper has been a problem and could be the chief reason that cartelization doesn't appeal to the Indonesians, he suggested.

The only method of solving the overproduction and low price problem, Sadli said, was via a "good producer-consumer relationship."

"We are gratified by the positive U.S. policy statements on copper," he said, explaining that the U.S. has taken the lead in talks at Geneva held by the United Nations Conference on Trade and Development (UNCTAD).

Sadli saw no short-term solutions to the copper production/pricing situation, though he echoed suggestions that Japan stockpile the metal as a solution to both overproduction and its own balance of payments surplus problem. He added that he would "welcome" a U.S. decision to stockpile copper.

The members of the Intergovernmental Council of Copper Exporting Countries (CICPEC) simply can't afford to trim production, he said.





## Malaysia Bids GSA Release Tin to Ease Prices

By JACK CUSHMAN

NEW YORK — Malaysia's Minister of Primary Industries Musa Hitam called upon the United States to release "a reasonable amount of tin" from the General Services Administration stockpile to relieve upward pressure on tin prices.

If there is a time for stockpile releases, "this is it," the minister said here Tuesday after arriving from Bolivia where he headed a delegation from the Association of Southeast Asian Nations to Bolivia. He added that Malaysia's acceptance of a stockpile release "is shared by Bolivia now."

While Hitam said he met with Administration and congressional officials, early this week, he said he had not yet asked them to release GSA tin, which he noted is included under a moratorium on sales from strategic stockpiles recently imposed by President Carter. He declined to say how much tin should be released, but said, "I would support the McElhan bill anytime."

He was referring to a bill introduced by Rep. Robert B. McElhan, (D., W. Va.) which would authorize the disposal of 30,000 tons of Grade A tin on the U.S. market only.

Hitam said he is "confident" that an "agreement in principle" will be reached in London at the quarterly meeting of the International Tin Council this week to establish what he called "a periodic review and a systematic approach" for revising the ITC price range for tin. He said that Bolivia has said it would ratify the agreement before it expires on June 30 if such an agreement is reached.

"We are much more optimistic about the viability of the

(Continued on page 34)



HITAM: "We are much more optimistic about the viability of the Tin Council."

# Malaysia Bids US Free Stockpile Tin

(Continued from first page)

Tin Council" after the meeting between the Bolivians and the ASEAN delegation, which included representatives from Thailand, Malaysia, and In-

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donesia, he said.

He added that the producer nations had agreed on a pricing policy only in general terms and would leave specifics for the entire ITC to establish. However, he drew a distinction between periodic, systematic price reviews and automatic indexation of tin prices tied to inflation.

"We agreed that some sort of system could be established giving the secretariat more responsibility in estimating a real price range," he said of the price review proposal. "We felt it is necessary for a much more in-depth study of price factors" to be carried out periodically by the ITC, he added.

Hitam said Malaysia is opposed to the formation of any producer cartel governing tin, which was one prospect raised in the joint statement released by the Bolivians and the ASEAN delegation to La Paz in the event the International Tin Agreement expires.

## Disavows Cartels

"Failure to make the agreement more just and equitable as well as functional may result in an undesirable course of action inevitably to be taken," the tin producers warned in their statement. "We do not believe in a producer cartel, because it is not consistent with our view that it must be an international agreement among producers and consumers."

Aside from the question of price reviews, two other points of contention remain to be settled at the ITC meeting — revisions of the

## Bankruptcy Plea Filed by Roscar

**NEW YORK (FNS)** — Roscar Steel Scrap & Metals Corp. has filed a bankruptcy petition in Federal Court here listing liabilities of \$3,828,500 and assets of \$674,835.

Debts include loans payable, \$2,500,000, and accounts payable, \$1,300,000. Assets include a \$300,000 claim against Minerva Seguros, Balboa, Spain, and a \$273,012 cash bond posted in the Superior Court of New Jersey.

Krause, Hirsch & Gross, 600 Third Ave., represents the debtor. John J. Galgay is bankruptcy judge.

voting system and demands for mandatory contributions by consumer nations to the ITC buffer stock. Hitam declined to state Malaysia's position on these matters, repeating the producers' joint statement that "the Agreement, to be successful, must be fair and equitable to both producers and consumers alike."

Hitam indicated that one essential ingredient in an effective tin commodity agreement is the existence of a large stockpile, which he said relies on contributions by consuming nations. So far, most consumer members of the ITC have refused to contribute to the stockpile.

"The bigger the stockpile you have, the more effective a commodity agreement can be," Hitam said, adding that a larger ITC buffer stock would have prevented or moderated recent price gains in tin.

## Calls It 'Best Time'

"I would request the U.S. government to release tin because this would be their contribution" to price control, he said. He also said this is "the best time to make lots of money" by selling GSA tin.

The reconciliation on price changes between Bolivia and Malaysia was seen by some industry representatives as a victory for Malaysia, which wants to keep prices at moderate levels to prevent losing industrial markets for the metal if prices increase dramatically. Bolivia, the world's highest-cost tin producer, has been considered willing to see the price go as high as \$5.00 per pound, and has repeatedly threatened to abandon the International Tin Agreement if prices were restrained.

Hitam characterized the producers' agreement as "not a victory for anyone. It is a victory of moderation and reason."

He said Malaysia's position was to support wide-ranging commodity agreements that would preserve "security of supplies" for consuming countries as well as "security of income" for producers. He added that Malaysia is the foremost producer of several other commodities in addition to tin.

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	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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THE WHITE HOUSE

WASHINGTON

October 19, 1977

MEMORANDUM FOR THE PRESIDENT  
THE CABINET

FROM

JIM SCHLESINGER  
STU EIZENSTAT *Shu*

SUBJECT

BRIEFING MATERIAL ON NATIONAL ENERGY PLAN

This memorandum will provide you with:

- The basic themes of our presentation on energy legislation. These can be used as talking points.
- An overview of the energy problem and how our Plan meets these needs.
- A schedule of major events in the coming weeks and information on the Conference.
- An outline of the major provisions of the National Energy Plan and a summary of House and Senate changes.

Attached to this memorandum is a suggested basic speech. Several optional inserts dealing with specific impacts (labor, farmers, consumers, international aspects) are included to help target speeches to specific audiences.

A set of the toughest questions and answers on the energy plan are also attached. Should you need any other information, we are happy to provide it.

BASIC ENERGY THEMES

1. With every passing day the energy problem grows worse.

We used more gasoline this summer than ever before.

We import more oil at higher prices than ever before, and have become more dependent on uncertain foreign supplies.

We continue to waste energy in our factories, our cars, and our homes at rates which we cannot afford.

We continue to put off the hard choices and the sacrifices in hopes that the problem will go away -- it won't. There are no easy choices or comfortable solutions. But the disaster we face in the future if we fail to act is even harder than the choices we must make now. If we act now, while there is time, we can balance energy needs and energy supplies without severe economic disruption.

2. Enactment of a strong, responsible energy plan tests our will as a people, and tests the strength of our system of government. Can we, with our system of government, act to avoid disaster before its most severe effects become visible? Both the President and the Congress will be judged on their ability to act before a crisis overwhelms us.
3. Our extraordinary dependence on foreign oil -- which is costing us \$45 billion this year -- threatens our national security. We cannot afford to have our energy sources and prices held hostage to the desires and whims of foreign oil producing nations. Our huge oil bill drains billions out of our economy robbing Americans of jobs. It creates unacceptable deficits in our balance of trade.
4. The President's Energy Plan is balanced and fair. It relies on three principal strategies:
  - conservation -- making more efficient use of the energy supplies which we now have:
  - fair production incentives -- ensuring that our energy industries receive the revenues they need to find new domestic supplies of oil and gas without letting them profiteer;
  - conversion -- switching to more abundant energy sources such as coal and solar energy.
5. Energy prices will inevitably increase, with or without a plan. The President's Plan protects the consumer through:
  - keeping a ceiling on natural gas prices and making sure that increases are borne primarily by industry.
  - rebates to consumers to offset increased oil prices rather than giving windfall profits to the oil companies.

- insulation and utility rate reform programs to keep electric bills from skyrocketing.
- 5. The President's National Energy Plan would not raid the Federal Treasury. It would not bust the budget and swell the federal deficit. Solutions to the energy problem should not eat up resources which are needed for other national needs.
- 6. If we in government fail to act, the responsibility will be on our shoulders. Future generations will say "they could have saved us, but they didn't." The responsibility will be on the powerful, but the terrible cost of our failure will be paid by the average working family in this country.
- 7. The Congress and the President can act together to establish a National Energy Plan. This is the President's highest priority and the entire Carter Administration will continue to fight for the principles and the programs put forward last April. Congress should not recess for the year without an adequate energy bill. But no bill would be preferable to an unacceptable bill which fails to protect the consumer.

#### OVERVIEW OF THE PROBLEM AND THE PLAN

Production of oil and natural gas, which now supplies 75% of our energy, has been declining by 6% per year. Oil imports have doubled in the last five years and now make up half our supply. Imports will cost \$45 billion this year.

Before the end of the century, and perhaps as early as the mid-1980's, world demand for oil will outstrip capacity to produce. Even if price and foreign dependence were unimportant, we would still have to begin a transition away from oil and gas to other fuel sources. The National Energy Plan relies on three basic thrusts to guide this transition.

##### 1. Conservation

The National Energy Plan combines regulatory programs, such as mandatory auto fuel economy standards, with economic incentives to encourage more efficient use of energy.

A key element of our conservation strategy is pricing energy at its true replacement cost. This permits us to harness the marketplace to stimulate conservation.

The basic mechanism for accomplishing replacement-cost pricing is the crude oil equalization tax (COET). While controls are maintained on old oil supplies to prevent producer windfalls, the COET is imposed at the wellhead to bring oil prices to the world level.

Revenues from the COET would be rebated to consumers on a ~~per~~ capita basis with a dollar for dollar rebate for home heating oil. The COET would be phased in over a three year period to prevent sharp economic disruptions and minimize inflationary impacts.

A second key element of conservation is the oil and gas user tax. Very large industrial users of these fuels would pay a gradually increasing tax to: (1) promote conservation, and (2) encourage conversion to alternate fuels.

Revenues from the oil and gas user tax would be available to industry to offset the costs of conversion.

The National Energy Plan provides other programs and incentives for conservation including:

- grants and low interest loans for weatherizing low income homes
- reform of utility rate structures to discourage waste
- business and residential tax credits for insulation, solar and other conservation investments
- retrofitting of federal buildings and local schools and hospitals
- a tax on gas guzzling automobiles to ensure that we meet fuel economy standards
- mandatory standards for major home appliances

## 2. Conversion to Alternative Fuels

Coal makes up 90% of U.S. energy reserves, but it supplies only 18% of current demand. Renewable sources of energy -- solar, wind, biomass, and geothermal -- are available in certain applications today. But major U.S. capital plant



investments made since the Arab oil embargo have not switched to these alternative fuels -- they have continued using oil and gas.

Under the national energy plan, utilities and other major fuel burning installations will be prohibited from burning oil and gas, except where environmental considerations prohibit use of coal. Incentives in the form of tax credits are provided for conversion to coal and renewable resources. Nuclear energy, in the form of light water reactors, will fill a gap during this transition.

Coal and renewable resources have been long neglected in our energy research and development budget. In our FY 1978 budget request, fossil fuel research increased by \$42 million. Solar and renewables programs will be revamped and emphasized. The Energy Department's R&D program will continue to shift to make up for neglect in moving these types of transition technologies forward, and to overcome some of the current difficulties associated with burning coal.

### 3. Incentives for New Production

Incentives must be given to stimulate new exploration and production of oil and gas, from both conventional and unconventional sources. The Plan, however, differentiates between reasonable incentives and windfall profits which would accrue if the price of all oil and gas were completely deregulated. Oil prices are set by an international cartel, not a free market. The Plan prevents domestic oil and gas prices from being tied completely to cartel-determined prices.

Nevertheless, the Plan, using discretionary authorities in existing law, provides for the equivalent of the world price for newly discovered oil. This is the highest price for oil anywhere in the world since many countries demand royalty or severance taxes far higher than the U.S. But the oil producers are asking for even more--they would like to deregulate prices from oil wells, many of which were producing profitably before the Arab oil embargo when the average domestic price of domestic oil was under \$4 dollars per barrel.

Natural gas is an even more valuable energy source than oil--it is cleaner burning, more versatile, and does not require extensive refining. Demand for natural gas is high, and were the price deregulated, even just for new gas, the price would soar to levels equal or higher than the world price equivalent for oil.

While we have had too much regulation of natural gas--over half the natural gas we now consume is priced at 32 cents per thousand cubic feet (mcf)--much of this comes from wells drilled in the 1950's and 1960's. Rewarding producers for past efforts which were profitably undertaken years ago ignores basic principles of equity.

While the Energy Plan maintains controls on conventional supplies of new natural gas, the \$1.75 price per thousand cubic feet is a generous increase over the current price. Just one year ago, the Federal Power Commission set the price of new gas at \$1.42--a price which was calculated to include: all increases in exploration and drilling costs, a 17% return on investment, compensation for loss of percentage depletion, a federal income tax rate of 48% (while most companies actually pay far less than that), and an additional increase to encourage conservation.

Finally, past experience in the unregulated intrastate gas market shows that higher prices have not managed to reverse the trend of dwindling supplies.

For unconventional sources of oil and gas, the Plan would provide the equivalent of deregulated prices. Similar incentives are provided to encourage enhanced recovery from old oil and gas wells.

In summary, the National Energy Plan is designed to meet seven basic goals by 1985:

- o To reduce the growth rate in energy consumption to 2 percent per year;
- o To reduce gasoline consumption by 10 percent;

- o To cut imports of foreign oil to less than 6 million barrels a day, less than half the amount that we will be importing if we do not conserve;
- o To establish a strategic petroleum reserve supply of at least a billion barrels, which will meet our needs for about 10 months;
- o To increase our coal production by more than two-thirds, over 1 billion tons a year;
- o To insulate 90 percent of American homes and all new buildings; and
- o To use solar energy in more than 2 1/2 million American homes.

#### SCHEDULE OF MAJOR EVENTS

##### Week of 10/17 - 10/23

- o House/Senate Conference begins on conservation.
- o President's trip to Michigan, Iowa, Colorado, and California with prepared energy speech in Des Moines on 10/21.
- o President meets with Senators, House conferees, consumer leaders and AFL-CIO.

##### Week of 10/24 - 10/30

- o House/Senate Conference continues on conservation, and possibly begins coal conversion.
- o Senate/Finance Committee report on tax measures filed; floor debate begins. Action expected by end of week or beginning of next.
- o Regularly Scheduled Presidential news conference; regular meeting with newspaper editors.

Week of 10/31 - 11/6

- Cabinet activities in full swing.
- Possible beginning of Conference action on tax portions.
- Possible initial Conference consideration of utility rate reform and/or natural gas regulation.

Week of 11/7 - 11/13

- Regular regional editors briefing with the President.
- Conference action continuing on all major controversial issues.
- Regularly scheduled Presidential news conference.

Beyond this point it is difficult to predict the issues under consideration in the Conference or the timing in moving toward completion.

#### CONFERENCE INFORMATION

The House has one set of conferees for all issues. Conference members were drawn from the Ad Hoc Committee on Energy which has representation from all standing committees with energy jurisdiction.

The Senate will have different sets of conferees for different issues. For example on conservation, all Senate Energy Committee members are participating. It is not now known which Senators will be conferees on the tax related portions of the bill, although they will be drawn from the Senate Finance Committee.

The Senate will vote on five separate conference reports (broken down to: conservation, coal conversion, utility rate reform, natural gas, and tax measures). The House will treat the Conference product as one bill.

OUTLINE OF MAJOR PROVISIONS OF THE NATIONAL ENERGY PLAN--SEE ATTACHED CHARTS

Administration Proposal

House Action

Senate Action

CONSERVATION

Buildings

1. Residential Conservation Tax Credit

- 25% of the first \$800 for specified energy conservation measures.
- 15% of the next \$1,400.
- The maximum credit is \$410.

- A 20% credit for the first \$2,000, for a maximum credit of \$400.

Finance Committee - adopted the House bill with an expanded list of eligible conservation investments.

2. Solar Tax Credit

- 40% of the first \$1,000 and 25% of the next \$6,400 for qualifying solar equipment for the first several years,
- declining by 1982 to 25% of the first \$1,000 and 15% of the next \$6,400.
- The maximum credit begins at \$2,000 and declines to \$1210 in 1982.

- 30% of the first \$1,500
- 25% of the next \$8,500
- The maximum credit is \$2,150.
- Includes wind equipment

Finance Committee - adopted the House bill and expanded the coverage to include leased equipment.

3. Weatherization Financing

- \$585 million direct grant program for low-income residence owners.
- Creation of a secondary mortgage market for residential conservation loans.

Passed the Administration's program and added a GNMA subsidized interest rate loan program for residences owned by individuals who earn up to 90% of the median income. Also raised the grant program cutoff to families with incomes at 125% of the poverty level.

Same as House

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Buildings (cont.)</u>		
7. Federal Buildings		
- Energy Efficiency Program		
Retrofit program to reduce energy conservation 20% in all existing Federal buildings, and 45% in all new Federal buildings. (Administrative)	Requires a schedule that meets total retrofit goal of 20% by 1990. (legislative)	Calls for a study on the feasibility of reaching the goals by 1990. (legislative)
- Solar Program		
o \$100 million Federal building solar demonstration program.	Same as Administration	Same as Administration
o Photovoltaics	Added a \$39 million program for further development of photovoltaic technology.	Same as House
No program		
8. Mandatory Standards For New Buildings		
Advanced the effective date of previously existing standards for 1981 to 1980. (Administrative)	Authorized \$20 million for state aid to meet the Administration's objective.	Same as House

Administration Proposal	House Action	Senate Action
CONSERVATION		
<u>Transportation</u>		
1. Gas Guzzler Tax/Truck Standards		
<p>Graduated excise tax on cars and light trucks which fail to meet EPCA standards. Graduated rebates for vehicles with fuel economy above the standard. Taxes begin in 1978. The tax in 1985 would range from a low of \$67 per car to a high of \$2,488. Also implemented existing discretionary authority to set truck standards.</p>	<p>Excise tax if fuel economy falls more than 3 to 6 mpg below EPCA standards. No rebates. Taxes in 1985 would range from a low of \$397 to \$3,856 per car in 1985. Eliminates applicability to trucks.</p>	<p>The gas guzzler tax was rejected. Instead, the Senate passed an amendment to EPCA which simply prohibits the construction of low mileage automobiles (16 mpg in 1981 rising to 22 mpg in 1985), and doubles the civil penalties assessed against the companies for not meeting the EPCA average fleet standards.</p>
2. Gasoline Taxes		
<p>Standby tax - five cents per gallon tax in 1979, increasing 5 cents every year in which consumption exceeds certain predetermined target levels. Taxes would be rebated on a per capita basis through the tax system.</p>	<p>Rejected standby tax. Extended existing 4 cent excise tax to 1985.</p>	<p>Same as House</p>
3. Blended Motor Fuels		
<p>No program</p>	<p>No program</p>	<p>Exempted motor fuels using a blend of alcohol from the gasoline excise tax.</p>

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Buildings (cont.)</u>		
4. Utility Insulation Program		
Utilities would be required to offer insulation information, offer loans repayable through utility bills and offer to arrange for installation.	Passed provision similar to the Administration's proposal with an opportunity for States and the Federal government to prevent installation by a utility if an anticompetitive finding is made of any given utility's actions under the program.	An individual utility must petition DOE to be allowed to install or make loans. DOE must find that the program would not be unfair or deceptive. Otherwise similar.
5. Schools and Hospitals Conservation Program		
Provides up to 40% grants to States for the installation and design of conservation initiatives in schools and hospitals.	Increased grants to 50% (90% in certain hardship cases); also expanded coverage to nursing homes and day care centers.	<u>Finance Committee</u> - Same as Administration, except grants are increased to 50%. Also made the tax credit refundable.
6. Municipal Buildings Conservation Program		
No program	Provides for energy audit and technical assistance grants for energy conserving initiatives in buildings owned by units of local government.	No program



ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Transportation (cont.)</u>		
4. Deduction for State and Local Gasoline Taxes  No proposal.	Repeals Federal tax deduction for State and local taxes on gasoline.	<u>Finance Committee</u> - rejected repeal of deduction.
5. Repeal 10% excise tax on inter-city buses.	Similar to Administration but expanded to cover excise tax on all buses and bus parts, and on certain related equipment.	<u>Finance Committee</u> - Same as House. Also added a 5 year, \$200 million refundable tax credit for inter-city buses and terminals to reduce fares and improve facilities.
6. Electric Automobiles  Eligible for maximum gas guzzler rebate.	Provided for a \$300 tax credit for any electric automobile.	<u>Finance Committee</u> - same as House.

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Transportation (cont.)</u>		
7. Aviation and Marine Fuel		
Current 2 cent tax rebate on marine fuel would be eliminated. Excise tax on fuel used for noncommercial aviation would be increased from 7 cents to 11 cents.	Adopted proposal on marine fuel. Aviation fuel proposal not adopted.	Same as House
8. Van Pooling Programs		
Purchase 6,000 Federal vans for demonstration pooling program.	Deleted program	Passed Administration's program. <u>Finance Committee</u> - added a 20% investment tax credit for vans used by a taxpayer to transport employees to and from work.
9. Other Programs		
--	--	<u>Finance Committee</u> - provided for a 10% investment tax credit for transportation energy saving devices.

Administration ProposalHouse ActionSenate Action

## CONSERVATION

Electric Utility Regulatory Policies

- rates must be cost justified
- eliminate declining block rates
- offer time of day pricing
- master metering prohibited
- FERC authorized to require pooling and wheeling to take advantage of regional efficiencies

## Administration proposal plus:

- funding of intervenors
- creation of Public Counsel's office
- tightening of rules on interlocking directorates
- \$300 million program for small hydroelectric facilities
- prohibition against wholesale rate increases without a hearing
- promotional advertising not allowed in rates

## Very limited bill that provides only for:

- authority to intervene in State hearings
- information gathering on rates throughout the Nation
- lifeline rates nationwide

Crude Oil Equalization Tax (COET)

- tax the difference between controlled oil price levels and the world price, imposing the full tax over a three year period with three equal increments of tax
- rebate the proceeds of the tax to every American on a per capita basis through a reduction in withholding for taxpayers or through appropriate state agencies for non-taxpayers
- dollar for dollar rebate for home heating oil

Adopted the Administration's proposal but provided for rebates only for the first year, and on a taxpayer, rather than per capita, basis

Finance Committee - Defeated COET proposal but issued instructions that if COET were adopted in conference:

- the tax should be phased out over time
- the funds should be channeled into energy development through an Energy Development Corporation or Trust Fund

Administration ProposalHouse ActionSenate Action

## CONSERVATION

Industrial Cogeneration

- provides for an exemption from PUC regulation of industrial cogenerators
- cogeneration equipment eligible for 10% additional ITC
- exemption from oil and gas conversion requirements if necessary to get cogeneration benefits
- prohibits discrimination by PUC or utilities against industrial cogenerators

- cogeneration equipment eligible for a 10% additional ITC
- qualified cogenerators receive preferred utility user tax treatment under the oil and gas users tax

- cogeneration equipment eligible for 10% additional ITC

Mandatory Appliance Standards

- requires establishment of mandatory efficiency standards for seven categories of base appliances. The Administrator is given discretionary authority to set standards for six other categories
- no deadline is established for standard setting

- requires industry standards for all 13 categories
- establishes a two-year deadline for the first seven categories, three years for the last six

- requires industry standards for the seven categories in the NEP, plus two additional categories
- establishes a 1980 deadline

Administration Proposal	House Action	Senate Action
PRODUCTION AND CONVERSION		
1. Natural Gas Pricing Policy		
<ul style="list-style-type: none"> <li>- Abandons cost-based pricing of new gas in favor of a commodity value pricing approach.</li> <li>- Establishes a Btu-related new gas price equal to the average price of all domestic oil, or approximately \$1.75 per mcf by early next year, which increases to over \$3.00 per mcf by 1985.</li> <li>- Old interstate contracts stay at the current price unless a higher price is needed to maintain production.</li> <li>- Old intrastate contracts increase to the \$1.75 level.</li> <li>- High cost new production is eligible for a special incentive price (deep drilling, tight formations, geopressurized methane, Devonian shale, etc.).</li> <li>- Incremental pricing passes the higher costs of new gas first to the industrial sector.</li> <li>- New gas is defined as anything beyond 2 1/2 miles of an existing well or 1,000 feet deeper than any well within the 2 1/2 miles radius.</li> </ul>	<p>Same as Administration proposal except that:</p> <ul style="list-style-type: none"> <li>- New gas is defined to include gas from any new reservoir.</li> <li>- Old intrastate contracts remain at their old price unless a higher price is needed to maintain production.</li> </ul>	<ul style="list-style-type: none"> <li>- Deregulates new onshore production immediately</li> <li>- Provides for 5 more years of offshore regulation based on a new commodity value formula.</li> <li>- New gas is more loosely defined, including gas from new reservoirs and extensions of existing reservoirs.</li> <li>- Old intrastate contracts get the deregulated prices.</li> </ul>
Cost to Consumer-\$15 billion over current approach from '78 to '85.	Cost to Consumer-\$1 billion over Administration approach	Cost to Consumer-\$70 billion over House from '78 to '85
Gas Production Increase-1.1 additional trillion cubic feet in '85.	Gas Production Increase-same as Administration	Gas Production Increase-.4 trillion cubic feet over House in '85

Administration Proposal	House Action	Senate Action
PRODUCTION AND CONVERSION		
2. Oil Pricing Policy (Administrative)		
<ul style="list-style-type: none"> <li>o Current upper and lower tiers are granted increases with inflation.</li> <li>o New oil is allowed to rise over three years to today's world price, plus inflation.</li> <li>o Tertiary recovery is allowed today's world price immediately.</li> </ul>	No action required	No action required
Savings to Consumers-\$10 billion from '78 to '85.		
Oil production increase-100,000 barrels per day by 1985.		
3. Oil and Gas Minimum Tax Treatment on Intangible Drilling Costs (IDC)		
Oil and gas producers pay a minimum tax only on the portion of IDC deductions that exceeds the net income from oil and gas properties. This gives all independent producers the same treatment previously available primarily to majors.	Adopted Administration position.	Adopted Administration position.
4. Geothermal Production		
Grants the same intangible drilling cost deduction that is available to oil and gas producers.	Accepted the Administration's proposal and also granted a 10% depletion allowance.	<u>Finance Committee-</u> - accepts House action on intangible drilling costs. - grants a 22% depletion allowance.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
5. Geopressurized Methane		
Provided the special high cost pricing provision discussed above in the natural gas bill.	Same as Administration	<u>Finance Committee-</u> In addition to the deregulation provided for in the gas pricing bill which passed the Senate, the Committee also provided for a -\$ .50 per mcf tax credit -20% investment tax credit -10% depletion allowance -Intangible drilling cost deduction.
6. Shale Oil		
Provided with the world oil price (Administrative)	No action	<u>Finance Committee -</u> provided an additional \$3 per barrel tax credit
7. Nonconventional Gas		
Provided the special high cost pricing provision discussed above in the natural gas bill.	Same as Administration	<u>Finance Committee -</u> \$.50 per mcf credit.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
8. Peat  No action	No action	<u>Finance Committee</u> - Increases depletion allowance from 5% to 10%.
9. Business Energy Tax Credits  Additional 10% investment tax credit for: <ul style="list-style-type: none"><li>- insulation of existing facilities,</li><li>- alternative energy property: boilers and other combustors using coal or other fuels, solar, low Btu coal gas, etc.</li><li>- specially defined energy property (conservation equipment), but only if retrofit onto existing facilities.</li></ul>	Similar to the Administration but excludes heat pumps from eligible property.  Also eliminates the regular investment tax credit for any new oil or gas fired facilities, unless such facilities are exempted from the regulatory program discussed below.	<u>Finance Committee</u> - Similar, but list of eligible property is expanded to include recycling equipment.  Also passed a refundable 40% alternative energy property credit. This credit expands the alternative property definition to include geothermal, feedstocks from coal, hydro power, solar and wind, and ocean and tidal power.



Administration ProposalHouse ActionSenate Action

## PRODUCTION AND CONVERSION

## 10. Oil and Gas Users Tax

- Tax on 1000 largest (85,000 bbl/yr or more) industrial and utility users. Oil is taxed at a flat rate, increasing to \$3 per bbl in 1985 for industrial users. Natural gas taxed at an amount set to make its cost equal to the pre-tax cost of distillate oil by 1985. Utilities are taxed at 1/2 the industrial rate for oil and the phase-in for both the oil and gas utility taxes is slower.

- Credit against user taxes. Any investment in alternative energy property (defined in the Business Energy Tax Credit section above) is eligible for a 100% credit against current year user taxes. Carry forward of any remaining credit.

Utilities are eligible for the credit only to replace existing oil or gas fired facilities.

Firms must elect between this credit and the business energy investment tax credit.

The coverage is expanded by using a 50,000 bbl/yr exemption, which includes approximately the 1400 largest firms. A lower tax rate is imposed for oil and gas use by nonboilers. Exemptions are provided for environmental reasons and for most process uses where the flame comes into contact with the product.

Similar to Administration proposal, except that if a company elects to utilize the user tax credit, it is ineligible for either the regular 10% or the additional 10% energy investment tax credit.

Finance Committee - rejected the user tax and rebates. Instead, relied upon tax credits only, including the new 40% alternative energy property investment tax credit described above.

Finance Committee - No provision; relied solely upon tax credits. (See above)

Administration ProposalHouse ActionSenate Action

## PRODUCTION AND CONVERSION

## 11. Coal Conversion Regulatory Program

- Blanket prohibition on any new utility or major industrial boiler that burns oil or gas.
- Discretionary authority to prohibit use in nonboilers.
- Case by case approach for ordering existing facilities to convert to alternative fuels.
- Exemptions allowed if coal cannot be used for environmental, economic or technical reasons.
- Covers facilities of 10 megawatts or greater.
- All utilities are required to be off natural gas for baseload purposes by 1990.

Accepted Administration program except the coverage of existing facilities extends only to 30 megawatt or larger facilities; smaller units may be included in the prohibitions if certain findings are made.

No nonboiler authority.

Similar to Administration program except the coverage is only down to 30 megawatts for new oil facilities, 10 megawatts for gas.

Provides for only limited nonboiler authority.

October 19, 1977

1985 Energy and Revenue Impacts of  
Administration, House and Senate Energy Bills

(Oil savings in thousands of  
barrels per day)

	<u>Administration</u>	<u>House</u>	<u>Senate</u> <sup>1/</sup>
Energy Savings Estimates			
Conservation Programs			
o Transportation	355	275	175
o Buildings, Appliances and Industrial	<u>955</u>	<u>1,015</u>	<u>1,025</u>
Subtotal	1,310	1,290	1,200
Production and Conversion Programs	<u>3,190</u>	<u>1,610</u>	<u>2,200</u>
Total	4,500	2,900	3,400
Revenue Impacts (million current dollars)	+1,000	-19,000 <sup>2/</sup>	-55,000 <sup>3/</sup> to 65,000

1/ Preliminary estimates

2/ Assumes full rebate of crude oil equalization tax. If  
rebate is only for FY 1978, net impact is a + \$7.6  
billion.

3/ Final estimates being developed by the Administration  
and Joint Committee on Taxation.

COMPARING THE CARTER PLAN  
AND PREVIOUS PLANS

Q. It seems to me that the Carter Energy Plan basically relies on higher prices to encourage conservation. That is exactly what the Ford Energy Plan did. How does the Carter plan differ from the Ford Plan?

A. The Carter Plan attempts to affect the investment decisions of American consumers and industry through a pragmatic combination of regulation and higher prices.

Both the Ford and Carter plans rely on higher prices. The basic difference is who receives the proceeds of those higher prices. Under the Ford Plan, billions upon billions of these dollars would have gone to the nation's oil and gas producers.

Under the National Energy Plan, almost all the increases in price - with the exception of the gas guzzler tax and a small portion of the user tax~~e~~ - are returned directly to the American public and the economy.

Thus, the National Energy Plan provides a blueprint for reaching our energy objectives without disadvantaging or unjustly enriching any segment of society. It is also a comprehensive proposal that uses regulation, as well as the pricing mechanism, in the area of conservation, coal conversion, and utility rate reform. It covers many more aspects of the energy problem with a far broader range of approaches than previous plans.

## INSULATION CREDIT

Q. Your residential insulation credit is likely to substantially increase the demand for residential insulation. If the industry does not have the capacity to meet this demand, the result will simply be increased insulation prices which will in turn eat away at the benefits associated with the credit. Why has the Administration proposed such a circular program that ends up benefiting only the insulation manufacturers?

A. A number of different studies of the capacity of the insulation industry to meet increasing demand under the National Energy Plan reach differing conclusions. For this reason we intend to carefully monitor industry claims that capacity will double in the next several years and that supply will be sufficient. If prices begin rising or if anyone takes advantage of tightening supplies, the Administration will be prepared to act.

It is important to note, however, that the tax credit in question applies to conservation measures other than just insulation. If the price of insulation does rise to the point where an investment in it is not cost-effective, then homeowners will shift their conservation investments from insulation to storm doors or windows or clock thermostats. Even if insulation prices do rise as a result of increased demand, the credit will thus result in much-needed energy savings.

## ECONOMIC IMPACT

- Q. What is the impact on the economy of the National Energy Plan? With all the taxes and the money being drained from the economy, won't it result in reduced GNP, and increased inflation and unemployment?
- A. A number of different analyses, including our own, conclude that the Plan will have no significant impact on the growth of real Gross National Product (GNP) or unemployment in the 1977-1981 period. The Plan will have a measurable, but modest net inflationary impact of 0.3 to 0.4 percent annually over the next two years and 0.1 to 0.3 percent annually over the following two years.

Under the plan, taxes collected are recycled immediately back into the economy. This reduces to an absolute minimum the potential fiscal drag effects of the higher energy prices that are designed to help change energy investment habits. Additionally the insulation and new construction activity which will result from the plan will stimulate the economy and provide jobs. Initiatives like utility rate reform will reduce utility industry capital requirements by \$40 to \$75 billion between now and 1985, thus offsetting some of the higher energy costs that will result from the Plan.

The National Energy Plan is designed to help the nation avert the total economic disaster that would occur if imports are not reduced and the time approaches when world oil demand runs into world oil supply.

## THE PLAN AND THE ENVIRONMENT

Q. Isn't the Energy Plan, particularly coal conversion, detrimental to the environment?

A. Under the coal conversion program we estimate that over 1/3 of all new industrial facilities will be burning coal. About 10% of existing facilities will convert, and an additional 10% will either convert or be retired earlier than they would have been without the Plan.

These are relatively conservative estimates and assume that coal cannot be burned in some areas of the country because of environmental restrictions. The Plan does not require that conversion take place on facilities which would be unable to meet ambient air quality standards. The Administration has also supported requiring all coal plants to use best available control technology to provide additional margins of protection.

The National Energy Plan recognizes that there are some questions, such as the impact of carbon dioxide (CO<sub>2</sub>), which need further study. These efforts are currently underway. The Department of Energy will also be funding a strong research and development program to develop better ways of burning coal.



## MASS TRANSIT

Q. Mass transit is one of the most efficient means of saving energy in urban areas. Why didn't the National Energy Plan deal with this issue?

A. The Secretary of Transportation, Brock Adams, has been working on development of a comprehensive national transportation policy since last spring. In recent years, a number of serious economic questions have been raised about the viability of traditional, fixed-rail transit options. Since a detailed analysis of urban transit questions was to be undertaken in the DoT review, the Administration determined that it was best to address these issues in that context.

The Administration does, however, place a high priority on finding responsible, economically sound answers to mass transit problems.

## LAST MINUTE EFFORT

- Q. Why did the Administration wait until so late to begin what appears to be a last minute, desperation blitz to save its energy bill?
- A. It is important to remember that the National Energy Plan contains some 113 proposals. After the President's initial announcement and meetings with House members, the legislation was spread out in sections to numerous Committees in both the House and Senate. It has been difficult to focus public attention on all the elements of the plan under these circumstances.

The House-Senate conference which begins soon is the first time since late last spring when attention could be drawn to one group and one set of issues. It has been clear for some time that the Conference would be a critical phase in the shaping of the National Energy Plan. To all minds, this is the most appropriate time to launch an all-out effort to enact the Administration's proposals.

CAMPAIGN PROMISE ON  
NATURAL GAS

- Q. During the campaign, the President pledged to work with the Congress to deregulate natural gas. Why did he change his mind so drastically on such a critical issue?
- A. The President carefully reviewed his campaign statement on natural gas deregulation prior to announcement of the National Energy Plan. A key consideration in his analysis was what the economic impacts of such a step would be at this time. The President determined that the consequences of deregulation would be disastrous for the economy. He added that it would not solve long range problems of dwindling supply.

In his April 20 address to the Congress, the President stated, "I want to work with the Congress to give gas producers an adequate incentive for exploration, working carefully toward deregulation of newly discovered natural gas as market conditions permit."

By providing a substantially higher price for new natural gas -- which phases upwards to the world price over time -- the National Energy Plan provides producers with fair incentives for production without substantial economic disruption or unwarranted windfall profits.

## DEREGULATION: WHY NOT?

Q. Natural gas production has been steadily dropping. Why not give deregulation a try and see what a free market would produce?

A. First, the free market isn't free. Gas prices would be set at the equivalent of the world price of oil. And that is set by the OPEC cartel.

We currently use a system where expensive supplies of gas are "rolled in" with cheaper supplies. Since over half of all interstate gas is still priced at 32¢ per thousand cubic feet (Mcf), deregulated prices of new gas could rise well above the equivalent of the world oil price and still stay within relatively competitive margins when rolled in.

But even \$4, \$5, or \$6 per Mcf does not produce very much more conventional natural gas than would the \$1.75 per Mcf price in the National Energy Plan. The President's proposal will increase natural gas production by over 1 trillion cubic feet in 1985 as compared with the production which would result from the current controlled price of \$1.45 per Mcf.

The cumulative increase in gas producer revenues is \$15 billion from 1978 to 1985 over the current system.

Deregulation would cost another \$70 billion, but would produce only 2% more gas (400 bcf) in that year. Under deregulation, the price of this increment of supply would be \$64.00 per Mcf -- an exorbitant price to pay for so little supply.

## ADEQUACY OF PRODUCTION INCENTIVES

- Q. The major emphasis in the program appears to be on conservation. But production of energy in this country is just as important. Why doesn't your program have any production incentives in it?
- A. The National Energy Plan provides for very generous production incentives. New oil will be given the highest price available anywhere in the world -- the \$14.50 per barrel world oil price. This encourages producers to explore for new supplies knowing they will receive the maximum net return per barrel for new oil.

The Plan does not, however, allow producers of oil from old wells to receive the world price. Most costs associated with these wells are already sunk, and most were drilled in expectation of a substantially lower price than is available today. The inventory profits that would result from deregulating such old oil would be unrelated to any new productive activity on the part of the producers, and would only contribute to accelerating inflation of production inputs (rigs, pipe, etc.) This would not produce any significant new supplies of energy.

The natural gas pricing provisions in the National Energy Plan abandon the cost based over-regulation of

the past in favor of a new commodity value pricing approach that establishes a price for new natural gas at the Btu equivalent price of domestic oil. This price will start at \$1.75 per thousand cubic feet (mcf) later this year and rise to over \$3.00 per mcf by 1985. It will move up with the oil price. This is a price substantially higher than the regulated price for new interstate gas of just 50 cents per mcf several years ago. It represents a six to seven fold increase in natural gas prices since the embargo. It compares favorably with the \$1.45 mcf price set last year by the FPC which allowed for a generous 17% rate of return and for a 48% tax level (which few if any oil companies actually pay). Additionally, special high cost new production from unconventional sources (such as deep drilling, tight formations, Devonian shale, geo-pressurized methane) would be deregulated.

The National Energy Plan's gas pricing approach would increase gas producer revenues by over \$15 billion between now and 1985. It would produce over 1 trillion cubic feet of additional gas in 1985. While deregulation would increase revenues by at least another \$70

billion, it would increase production by only 2% in 1985. The National Energy Plan sets the natural gas price at a level which maximizes production and avoids unfair and unproductive revenues accruing to the producers.

## GAS GUZZLER TAX AND THE LARGE FAMILY

Q. Doesn't the gas guzzler tax seriously discriminate against the large family that needs a station wagon or sedan as a family car?

A. It does not, because Detroit has already begun manufacturing family size sedans and station wagons which get very impressive mileage. While these cars are not high-speed, high performance, their driveability represents a sound and acceptable trade-off for increased fuel economy. Numerous makes and models are available to meet the needs of larger families while meeting the required mileage as well.



## OPEC PRICES

- Q. If a major concern about the energy problem is OPEC prices, why does the Administration tie its crude oil equalization tax to the OPEC price?
- A. The crude oil equalization tax (COET) taxes the difference between the price of controlled domestic oil and the 1977 world oil price, adjusted for inflation. The tax would be phased in over a three year period. Whether we like it or not, the world oil price reflects the cost of replacing a marginal barrel of oil. If the cost of domestic oil is less than the world price, the U.S. will continue to subsidize increasing levels of imports which we cannot afford.

The COET will recoup for the consumer the difference between the controlled oil price and the world price. This provides a strong measure of protection to U.S. consumers and to our economy. Additional protection is provided in the Administration's plan by tying COET to the 1977 world price, adjusted for inflation. If the actual world price should increase faster than inflation, the U.S. costs need not go up that quickly.

## FOREIGN COMPETITION

Q. Doesn't the proposed oil and gas user tax discriminate against United States industries vis a vis their foreign competitors?

A. The oil and gas user tax should not have any appreciable impact on the competitive position of United States industries for the following reasons:

1. The price impacts resulting from the tax average less than 1% for all industrial categories, and, except for aluminum, less than 2% for any individual industry.
2. The taxes will be equivalent to the world price except for boiler use of oil. In that case, the tax is \$3.00 above the world price. If oil isn't made more expensive than gas, boiler users would likely shift to increasing amounts of residual fuel oil, putting a further strain on imports.

## IMPACT ON THE FEDERAL BUDGET

- Q. What is the impact on the Federal Budget of the massive expenditures of the National Energy Plan, particularly the tax portions?
- A. As submitted to the Congress, the National Energy Plan would yield about a \$1 billion surplus to the Treasury, on a cumulative basis between now and 1980.

The bill passed by the House would result in a \$19 billion cumulative deficit between 1978 and 1985. This loss of revenue is due primarily to changes in the the oil and gas user tax which exempt various categories of industry.

The budget deficit created by the action of the Senate (with the tax portions calculated on the basis of Senate Finance Committee action) would be \$55 billion, 1978-1985. This level of deficit is not necessary and is unacceptably high.

The Administration has stressed its concern that the energy plan not raid the Federal Treasury. The Administration will work with the Conferees to develop legislation which comes as close as possible to providing a balanced energy budget.

## NUCLEAR POWER

Q. In the Energy Plan and during the President's campaign, he spoke of nuclear energy as the energy source of last resort. But the plan seems to call for a substantial increase in the number of nuclear plants, and nuclear licensing legislation, which your Administration now has under consideration, would appear to facilitate that expansion of our reliance on nuclear energy. How do you account for the difference between the campaign rhetoric and the actual substance of the Plan?

A. The real danger from nuclear energy is the possibility of our moving toward a plutonium economy. The threat to our health, as well as the political stability of the world, from the proliferation and free trade of plutonium is serious.

That is one of the reasons why the President has opposed construction of the Clinch River Breeder Reactor Project. He is taking the lead in curtailing the spread of plutonium-based nuclear technologies by asking other countries to join with us to evaluate alternatives to the plutonium economy.

The Light Water Reactor can provide a reliable and safe source of needed electricity.

As we face the reality of the need to lessen our dependence on oil and natural gas, coal and nuclear energy are essential options which both must be pursued.

## GOALS OF THE PLAN

Q. Numerous studies have indicated that the National Energy Plan simply falls short of the goals set by the President. Why bother if the plan is so deficient?

A. It is interesting to note that all the studies of the Plan had positive things to say about it. CBO, GAO, and OTA, all agreed with the general thrust of the Plan.

Only CBO did an independent estimate of the Plan's total savings. They found that the Plan would achieve about 75% of the savings outlined in the President's goals. The basic area of difference was in the projected savings under the Coal Conversion program. CBO estimated a lower level of coal use by new facilities than the Administration did. The Administration believes its estimates are more realistic since it would have authority to ban oil and gas use in new facilities. For most other areas in the Plan, CBO agreed with our projections.

To the extent that any projections fall short of the goals laid out by the President, such findings tend to argue for a plan even stronger than the Congress is now considering.

## BIG GOVERNMENT

Q. Doesn't the National Energy Plan represent a massive increase in Federal power over the economy?

A. The National Energy Plan was designed to keep Government's intervention into the lives of American citizens to an absolute minimum. It is for this reason that the tax on crude oil, the oil and gas users tax on large industries, and a tax on gas guzzling cars were proposed. They are all measures designed to affect investment decisions while preserving the individual's freedom of choice. We could have gone the heavy regulation approach, relying on initiatives such as rationing, and allocation. But we didn't. Through the use of incentives, the President wanted to give the American public a chance to act voluntarily. The President has stated, however, that if this fails, mandatory measures will be proposed.

## IMPACT OF PROGRAM

- Q. Won't this program impose the largest peacetime tax in the Nation's history? The Chamber of Commerce, among others, have claimed that the program will cost \$1,400 per person in increased energy costs. How can we tolerate such impacts?
- A. Those who would make such claims are deliberately misleading the public.

There are two major taxes in the Plan -- the Crude Oil Equalization Tax (COET) and the oil and gas users tax. Neither is designed to raise revenues, but rather to change price relationships for the purpose of affecting energy investment decisions.

COET is designed to bring the price of domestic oil up to its true marginal OPEC cost and almost the entire proceeds of the tax are rebated to American consumers. It is interesting that many of those who oppose the tax, nonetheless favor deregulation of natural gas prices. Deregulation would result in an equivalent amount of billions over the same period of time being drained from the economy. Instead of being rebated, however, such revenues would permanently accrue to a handful of oil companies. The real danger to the economy from a drain on disposable income is deregulation, not COET.

The second tax is the oil and gas user's tax, the vast majority of which would also be rebated directly to industry to help finance sorely needed coal conversion projects.

In summary, the House bill actually results in a budget deficit between 1978 and 1985 of approximately \$19 billion. The House version of the NEP puts more money directly into the economy than it takes out. The Chamber of Commerce and others who make claims that the Plan will cost Americans dearly are just wrong.



## IMPACT ON POOR

Q. The cornerstone of the plan seems to be higher energy prices. Those who can least afford these prices are the poor. But the plan does nothing for them. How can you have a plan that relies on higher prices without helping the poor?

A. While the National Energy Plan recognizes that energy prices must increase, it also recognizes that these increases cannot occur at the expense of the poor and near poor. The Plan is progressive.

Through rebates from the well-head tax, the total income of poor people is increased by \$3.5 billion during the first three years of the program.

The overall impact of the National Energy Plan on the poor will be to increase disposable income by 3 percent over what it would otherwise be in 1985 without the Plan. By 1985, the Plan will reduce home fuel expenditures by about \$100 for poor households.

The Plan contains a number of specific programs designed to help keep energy costs down for low income people:

- o The National Energy Plan increases the monies available for weatherization grants to \$585 million. This is three times higher than the previous program and will cover 14 million U.S. families.

- o Continuation of natural gas price controls and use of incremental pricing for industry which will shield consumers from natural gas price increases.
- o Emergency assistance program administered through HEW to aid in times of special need, such as an extremely cold winter.
- o Minimum requirements for utility rate reform to help reduce costs of electricity for low income families. (Note: the Administration plan does not require "life-line" rates to provide subsistence levels of energy at low prices, but the Administration has been supportive of initiatives undertaken by state public utility commissions to develop these types of programs.)

THE WHITE HOUSE

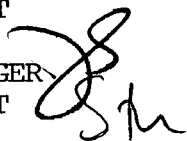
WASHINGTON

October 17, 1977

MEMORANDUM FOR THE PRESIDENT

FROM

JIM SCHLESINGER  
STU EIZENSTAT



SUBJECT

REVIEW OF NATIONAL ENERGY PLAN AND HOUSE  
AND SENATE ACTION

Attached is a review of the key sections of the National Energy Plan and an outline of the House and Senate action on these provisions.

In view of your meeting with Senator Long this afternoon, you may want to concentrate on the last section of the memo. This reviews our tax proposals, and the Senate Finance Committee's disposition of them.

At this stage we feel that your meeting with Long and other Senator's ought not to get into detailed discussions of possible compromises. It is too early to know where the lines of discussion in conference will be drawn. Instead, we believe that you should make a general pitch for the plan, and devote the rest of the conversation to learning as much as you can about what Long and the others expect to get from Conference. If we can avoid giving indications now of what the Administration will and will not accept, we avoid the risk of others claiming that we are making deals and not sticking strictly to our original proposal.

October 17, 1977

Congressional Action on the National  
Energy Act

For purposes of going to conference the Energy bill has been broken down into 5 parts:

1. Conservation
2. Coal Conversion
3. Utility Rate Reform
4. Natural Gas
5. Taxes

The following summary by part reviews the Administration's original proposal as well as the actions taken by both the House and Senate.

I. Conservation.

A. Buildings.

1. Weatherization.

As proposed in the original plan, both the House and Senate have enacted a grant program for insulating the homes of the poor and created a secondary mortgage market for loans to specifically promote residential conservation. In addition, they added a subsidized loan program for individuals below the median income.

2. Utility Insulation Program

Both the House and the Senate have enacted a variation of the utility insulation program originally proposed by the Administration. Under the Administration's program, utilities were required to offer insulation information, make or arrange average loans repayable on utility bills and install or arrange for the installation of insulation. Under the House bill, utilities can be prevented from actually doing the work if such activity is deemed anticompetitive. In the Senate bill, each utility must show there will be no deceptive practices before being allowed to undertake the installation portion of the program.

### 3. Federal Buildings

Both bills provide for programs contained in the original NEP to retrofit all Federal buildings with conservation materials by 1990, as well as a \$100 million solar Federal building demonstration program.

#### B. Transportation

The Senate has adopted a regulatory program which prohibits construction of low mileage automobiles and doubles the civil penalties applicable to a violation of the average mileage standards currently provided for in the Energy Policy and Conservation Act. There were no such proposals in the National Energy Plan. The House has no such provision. Instead, it passed a variation of the Gas Guzzler Tax we originally proposed, which is discussed in the tax provision section below.

#### C. Schools and Hospitals

As originally recommended in the National Energy Plan, both bills provide for a 50 percent to 90 percent grant for conservation measures undertaken by schools and hospitals. The House added day care centers and nursing homes. The House bill also includes a program for energy audits and technical assistance for municipal buildings.

## II. Oil and Gas Conservation (Coal Conversion Regulatory Program)

Both the House and the Senate provide for the blanket prohibition of any new major industrial boilers that burn oil or gas. They also provide for a case by case approach to ordering existing facilities to convert to alternate fuels. Exemptions are allowed if coal cannot be used for either environmental or economic reasons. Utilities are required to be off gas by 1990.

The major differences between the Administration, House and Senate bills are the size of the facilities to which these regulatory measures apply. The National Energy Act covered any facility of 10 megawatts or greater. The House bill gave automatic coverage to 30 megawatts and above

with administrative discretion to go down to 10 megawatts. The Senate bill provided for just 30 megawatts. We clearly prefer the House bill because of the greater coverage and greater savings. However, the Senate provision that extends coverage to certain non-boilers may also be preferable.

### III. Utility Rate Reform

#### A. House Bill

The House Bill establishes new minimum rulemaking standards for the nation's utilities and goes beyond the Administration's original proposals in some areas. Rates must be cost-justified, and no declining block rates are allowed unless they are cost-justified. It also requires utilities to provide time of day pricing and to undertake various load management initiatives. The Federal Energy Regulatory Commission of the Department of Energy is given the authority to order interconnections to take advantage of regional efficiencies. There is a prohibition against wholesale rate increases without appropriate hearings and master metering in new apartments is also prohibited. Discrimination against those who produce energy as a result of solar, wind, or cogeneration is prohibited.

Additions to the House bill include funding of intervenors before State Utility Commissions, creation of a public council's office in DOE, and a tightening of the rules governing interlocking directorates. Finally, \$300 million is provided for the development of small hydro-electric projects.

#### B. Senate

The Senate bill is greatly watered-down and provides only the authority to intervene in State Utility Commission proceedings as well as some new authorities for gathering data on utility rate structures throughout the country. The only major initiative in the Senate bill is a requirement that lifeline rates be established.

A slightly modified House bill that closely resembles our original proposal would be a reasonable result in the conference.

#### IV. Natural Gas

##### A. House Bill

The House bill puts interstate and intrastate pricing of natural gas on the same basis. It adopts a new commodity value pricing approach that establishes a price for new natural gas at the Btu equivalent of the average price of all domestic oil -- or approximately \$1.75 per mcf by the beginning of next year. High cost new production is given a special incentive price. An incremental pricing provision passes the cost of higher priced new gas on to the industrial sector.

There are only two differences of note between the House bill and the Administration's original proposal. First, upon the expiration of old intra and interstate contracts, the contract price remains the same unless a higher price is needed to maintain production. Under the NEP, such expiring intrastate contracts could increase to \$1.75 per mcf. New gas in the House bill is defined as gas from any new reservoir, while the Administration's bill established a 2 1/2 mile, 1,000 foot deeper automatic measurement.

##### B. Senate

The Senate passed Pearson-Bentsen bill immediately deregulates all new onshore gas, and sets up a new regulatory standard based on commodity value pricing for the next five years for new offshore gas. New gas is loosely defined as any gas from a new reservoir or an extension of an existing reservoir.

## V. Taxes.

### A. Residential Tax Credits.

The National Energy Plan (NEP) called for a tax credit of 25% of the first \$800 and 15% of the next \$1400 (for a total of \$410) for the purpose of residential insulation and other residential energy conservation measures.

The House passed a single 20% credit for the first \$2000 worth of expenditures, or a total of \$400.

The Senate Finance Committee reported out a similar credit but expanded the list of eligible items. There is no issue on this particular portion of the NEP.

### B. Solar Tax Credits.

The NEP contained a credit of 40% for the first \$1000 and 25% of the next \$6400 for qualifying solar equipment (for a total of \$2000 credit). That credit declined in stages to 25% of the first \$1000 and 14% of the next \$6400.

The House bill provided 30% of the first \$1500 and 20% of the next \$8500 or a total maximum credit of \$2150.

The Senate accepted the House solar credit and expanded it to cover leased equipment.

### C. Gas Guzzler Tax.

The National Energy Plan provided a graduated gas guzzler tax on new automobiles with fuel efficiency below the fleet average levels required under current legislation. The taxes collected would be returned by rebates on automobiles that meet or do better than the fleet average and through rebates on all electric automobiles.

The House bill weakened the gas guzzler tax by dropping the rebates except for electric vehicles; by eliminating trucks from coverage of the tax; and by creating a window between the statutory standards and the mileage at which the tax would begin. On the other hand, the House tax was very stiff on the cars that were covered by the tax. The House tax would save about 175,000 barrels of oil a day by 1985 compared to the original Plan savings of 275,000 barrels per day.

The Senate Finance Committee by an 11 to 5 vote dropped the gas guzzler tax on the grounds that the regulatory requirement prohibiting the construction of automobiles below minimum mileage and doubling the company penalties



for noncompliance with EPCA standards which was separately passed by the Senate, made the gas guzzler tax unnecessary. Although the Senate provisions in theory achieve the same savings, they depend almost exclusively on a doubling of the current EPCA compliance fines. In view of the tendency of the Congress to grant extensions of statutory deadlines, such as under the Clean Air Act, and considering the fact that without a gas guzzler tax there would be no incentives on consumers to purchase more fuel efficient cars, we believe the House bill's guzzler tax, or a combination of the House gas guzzler and Senate bills, would be the best approach.

#### D. Standby Gasoline Tax.

The Administration proposed a standby gasoline tax which would only be imposed if certain specified fuel efficiency goals were not achieved. The tax would start at 5c and if targets were repeatedly missed could go as high as 50c over a 10-year period.

Neither the House nor the Senate bills contained the standby gasoline tax.

#### E. Other Transportation Measures.

The NEP would remove the Federal excise tax on the purchase of intercity buses.

The House bill expanded this coverage to tires, gasoline and other purchases related to intercity buses.

The Senate bill not only contained these exemptions, but provided \$200 million a year in credits to intercity buses to lower fares and to provide for terminal improvements.

#### F. Crude Oil Equalization Tax.

The NEP provided for a crude oil equalization tax (COET). That tax would cover the difference between controlled oil prices and the 1977 world oil price and would have been rebated on a per capita basis. The Administration proposal would have been imposed in three stages to minimize economic impact.

The House essentially passed the Administration proposal, although the rebate was only put in for one year--1978.

The Senate bill contains no COET, but it does contain an Energy Development Corporation that would use COET funds for energy project financing if the COET were to be adopted in Conference.

#### G. Oil and Gas Users Tax.

The Administration proposed a tax on all industrial uses of oil and gas. Under the Administration's proposal roughly \$84 billion through 1985 would be collected and \$40 billion would be rebated to industry to help pay for coal conversion expenditures.

The House bill created a number of exemptions, including elimination of most process uses and environmental and economic exemptions. Under the House bill \$31 billion would be collected and \$26 billion would be rebated to industry to pay for replacement of oil and gas facilities.

The Senate bill contains no oil and gas user taxes.

#### H. Business Use Taxes.

The NEP provided an additional 10% business tax credit for coal conversion (in those cases where the rebate was not used), cogeneration and business energy conservation investments.

The House bill basically went along with the Administration bill and added recycling expenditures as an eligible component.

The Senate bill greatly expanded the business tax credits for investment in any alternative energy equipment, increasing the credit to an additional 40%. Without any offsetting revenues, this would result in a treasury drain of over \$20 billion by 1985.

#### I. Production Incentives.

The new gas and administratively implemented oil pricing provisions of the NEP were deemed to be fair and generous. The House agreed, but the Senate Finance Committee added a series of additional production incentives including a \$.50 per Mcf credit for unconventional gas and geopressurized methane and a \$3 per barrel credit for oil shale production. They also included a 22% depletion allowance for geothermal and a 10% depletion allowance for peat.

#### J. Savings and Revenue Losses.

The NEP tax provisions would have resulted in energy savings of 4.5 million barrels of oil a day and a revenue gain of \$1 billion.

The House bill would have resulted in energy savings of 2.7 to 2.9 million barrels per day and revenue losses of \$13 billion, depending on how losses are calculated.

The Senate bill would result in savings of about 2.9 to 3.3 million barrels per day and revenue losses of \$55 billion.

#### K. Strategy.

At this point the staff believes the best strategy is to get the Finance Committee bill passed by the Senate and then work to get a good bill in the Conference. If an attempt is made to push for votes on the Senate Floor, it would be in the Administration's interest to support a motion to table rather than run the risk of taking an adverse vote to Conference.